



Clients,

The California Legislature concluded the 2015-16 Regular Session and September 30th is the last day for Governor Brown to sign or veto bills. This report covers selected measures, with a current status, and other topics of interest to local government. Please let us know if further clarification or specific impact is needed on policy issues. A final report with additional analysis will be published after September 30th.

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**SECTION 1: SELECTED LEGISLATION**Sales and Use Tax

- **Add on tax: City of Alameda:** Allows the adoption of an ordinance to exceed the 2% cap; BOE estimates the bill will generate about \$4.1 million annually for the City **(AB 366/ Bonta)** *(Governor's Desk)*
- **Exemption:** Diapers designated size 3 or under until 2022; local loss of \$36.3 million **(AB 717/Garcia)** *(Vetoed)*
- **Exemption:** Property sold at the Jimmy Doolittle Air and Space Museum Education Foundation (Vacaville); this bill continues the practice of applying the existing sales tax exemption in an ad hoc fashion to specially named museums; one -time \$39,000 loss of local revenues **(AB 724/ Dodd)** *(Vetoed)*
- **Exemption:** Feminine hygiene products until 2027: Local loss of \$20 million **(AB 1561/Garcia)** *(Vetoed)*
- **Exemption:** Pawn broker sales and applies to an original pledger that re-acquires the property originally pawned as security for a loan **(AB 2365/ Gipson)** *(Vetoed)*
- **Contra Costa Transportation Authority (CCTA):** Shifts the authorization to impose a TUT from Contra Costa County to CCTA; allows the CCTA to propose a transportation tax measure to county voters **(AB 1665/ Bonilla)** *(Chaptered)*
- **Exemption:** Animal blood sold by non-profit blood banks for injury and disease prevention or treatment. Animal Blood Bank expressed opposition because the bill because precludes many smaller veterinary facilities from the measure's benefits; local loss of \$158,000 **(SB 898/ Nguyen)** *(Vetoed)*

Hotel Tax / Short-Term Rentals

- **Insurance:** Hosting platforms must provide notice warning individuals to review any restrictions on their homeowners' or renters' insurance policy related to short-term rental activities to ensure possible losses are covered **(SB 1092 / Monning)** *(Chaptered)*
- **TOT collection method for on-line platforms:** Would have allowed on-line platforms to elect to participate and collect TOT revenues and the return the revenue to locals; required local governments notify the Controller if they wish to be a "collecting jurisdiction"; "collecting platforms" would be subject to an annual audit or review by the Controller; local governments' would need to make a request of the Controller to allow locals or designated officer to review the Controller's audit findings **(SB 1102/ McGuire)** *(Dead)*
- **Local and on-line platform opt-in participation method:** Would have set up a mechanism to allow locals and on-line platforms to 'opt in' a process for the collection of TOT revenues **(SB 133/ McGuire)** *(Dead)*

Property Tax

- **Registration of mobilehomes:** Waives all outstanding property taxes and associated penalties and interest for mobilehome owners missing proper registration for their mobilehome **(AB 587/ Chau)** *(Governor's Desk)*
- **Payment plan system fees:** Allows counties to levy a fee to pay for the implementation and administration of a property tax payment plan system to assist homeowners with tax liabilities **(AB 2291/ Achadjian)** *(Chaptered)*
- **Monthly payments:** Monthly property tax payment programs can be implemented by counties; would require the monthly property tax payment to be allocated among the county, cities, special districts, and school entities in proportion to the amounts of ad valorem property tax revenue otherwise allocated among these entities **(AB 2691/Holden)** *(Governor's Desk)*
- **VLF allocations:** Adjusts the existing allocation of VLF revenues and restores funds to California's newest four cities, which was the assumption as part of their incorporation review by the LAFCO since VLF makes up a critical source of a city general fund upon their incorporation **(SB 817/ Roth)** *(Governor's Desk)*
- **Postponement:** Qualified beneficiaries of special needs trusts could apply to the Controller to defer payment of property taxes through the Property Tax Postponement (PTP) Fund; the bill is tied to AB 1952 **(SB 909/ Beall)** *(Governor's Desk)*
- **Property tax override revenues:** Prohibits the division of revenues derived from property tax override rates approved by the voters **(SB 975 / Senate Governance & Finance)** *(Chaptered)*
- **Welfare exemption:** Increases the exemption for non-publically financed affordable housing to \$100,000 from \$20,000 in tax; annual property tax revenue loss of \$240,000 **(SB 996 / Hill)** *(Governor's Desk)*
- **Disabled veterans exemption:** Annual property tax revenue loss of \$127,000 for every 100 newly-qualified disabled veterans **(SB 1458/Bates)** *(Governor's Desk)*

Utility User Tax

- **AB 1717 clarification:** Sellers of de minimus sales of prepaid MTS (AB 1717/ 2014) are not required to register with the BOE; AB 1717 relieves a seller other than a direct seller, commencing January 1, 2017, of the requirement to collect the prepaid MTS surcharge if that seller had prepaid MTS sales of less than \$15,000 in the previous calendar year **(SB 1481/ Committee on Privacy and Consumer Protection)** *(Chaptered)*
- **Replacement of public switched telephone network:** Would have created a process to expedite “plain old telephone services” as long as telecoms did property outreach to customers **(AB 2395/ Low)** *(Dead)*
- **Public utilities: collection of local taxes:** Clarifies that cable service providers are covered by the law that limits public utilities and other service providers' duties and liabilities with regard to collecting local utility taxes **(SB 1422/ Glazer)** *(Chaptered)*
- **FCC proposed regulation to give consumers choices in cable boxes:** Proposal would decouple cable TV content from the box that is rented; cable industry is moving to applications. Locals will lose revenue from cable box rentals. <https://www.fcc.gov/document/fcc-proposes-unlock-box>

Economic Development / RDA

- **Local property:** Allows locals to acquire, sell or lease properties that are owned to promote economic development; clarifies that locals can make loans to rehabilitate certain commercial buildings **(AB 806/ Dodd)** *(Governor's Desk)*
- **Community Revitalizing and Investment Authorities (CRIA):** League-sponsored to clean up AB 2 (from 2015) that created a new form of redevelopment or enhanced infrastructure financing districts (EIFD); will allow CRIA to receive funding from the same sources as the EIFD; allows a CRIA to be established within a disadvantaged community **(AB 2492 /Alejo)** *(Governor's Desk)*

Land Use and Housing

- **Creates a development bonus:** Local agencies would have to offer agreeable incentives or concessions for commercial developers that include affordable housing in a mixed use project or financially support an affordable housing development off-site; sunsets January 1, 2022 **(AB 1934/ Santiago)** *(Governor's Desk)*
- **No Place Like Home (NPLH) Program financing:** Would authorize the California Health Facilities Financing Authority and the Department of Housing and Community Development to provide services pursuant to the NPLH Program related to permanent supportive housing; allows \$2 billion in taxable or tax-exempt revenue bonds to be issued for these purposes **(AB 1628/ Committee on Budget)** *(Chaptered)*
- **Zoning for multi-family units and parking:** Locals may adopt an ordinances for second units in single-family and multifamily residential zones; provides a bright line rule that local ordinances are null and void if they conflict with the required standards state law **(AB 2299/ Bloom)** *(Governor's Desk)*
- **Junior second units:** Allows locals to create an ordinance for “junior second units” (created from repurposing spare bedrooms within existing homes) **(AB 2406/ Thurmond)** *(Governor's Desk)*
- **Density bonus:** Streamlines the development of housing projects with affordable units eligible for the state’s density bonus law **(AB 2501/ Bloom)** *(Governor's Desk)*
- **Accessory second units and limitations on utility connection fees:** Restricts locals ability to impose requirements including prohibitions on local parking requirements **(SB 1069/ Weickowski)** *(Governor's Desk)*

Parking Meter Revenue

- Deletes the 2017 sunset prohibiting locals from ticketing cars at broken meters; prohibits cities from providing quota or revenue incentives when contracting for private enforcement **(AB 2586/ Gatto)** *(Governor's Desk)*

Transparency

- **Financial disclosure:** Requires a city, county, or special district to post compensation information on its Internet Website that contains the names, positions, and total compensation, including a breakdown of the types of compensation provided, of each elected official for the previous calendar **(AB 779 / Garcia)** *(Governor's Desk)*
- **Local ballots:** Requires local governments to provide an impartial analysis for local ballots (75 words or less) in the format of "What does a yes vote mean?" and "What does a no vote mean?" **(AB 2265 / Stone)** *(Chaptered)*
- **Online postings for local government meetings:** Requires local governments to post a direct link to their meeting agenda online **(AB 2257/ (Maienschein)** *(Chaptered)*
- **Maintain written protests from the public/ transparency:** Requires an agency that proposes to charge a new property related fee or increase an existing one to maintain all written protests for at least two years after the hearing **(AB 2801/ Gallagher)** *(Chaptered)*
- **Parcel tax notices/ transparency:** Requires local agencies to send notices to a property owner, if that owner does not reside within the jurisdictional boundaries, before the adoption of any new parcel tax **(AB 2476/ Daly)** *(Chaptered)*

Transportation / Special Session/ November Ballot

Special Session: MuniServices reported in its August 19, 2016 Policy Update that a proposed transportation funding outline emerged by Senator Jim Beall and Assembly Member Jim Fraizer, chairs of the Transportation Committees in their respective legislative houses.

Assembly Member Fraizer this week told a MuniServices representative that a 'special session' will be called after the November election to address the issue. The proposed "package" would generate \$7.4 billion annually in revenue to repair and maintain state highways and local streets, roads and bridges.

Transportation Package Summary: http://www.muniservices.com/wp-content/uploads/081916_MuniServices_Policy_Update_-_Focus_on_Transportation_Attachments.pdf.

November Ballot: The *Mercury News* reports in a September 14 article that nationwide, voters will be asked to pay for nearly \$200 billion in transportation improvements this November with \$13 billion of that locally.

<http://www.mercurynews.com/2016/09/12/unprecedented-200b-in-transportation-funding-nationwide-13b-locally/>

- Transportation provisions of the Budget Act of 2016 which include: Requires the Controller to distribute state transit assistance funding; increases the base vehicle registration fee from \$46 to \$56; removes caps on issuing Green (for plug-in electric hybrids) until 2019; requires the Department of Transportation to prepare a report on state's highway systems high occupancy vehicle lanes **(AB 838/ Budget and Fiscal Review)** *(Chaptered)*
- Creates a new entity that consolidates San Bernardino's county transportation agencies into a single agency, to be known as the San Bernardino County Transportation Authority **(SB 1305/ Morrell)** *(Chaptered)*

Taxi Cab Regulation / PUC

- Prohibits cities and counties from creating additional rules and regulations on taxicab transportation services. This bill would make the provisions inapplicable to a city or county, other than the City and County of San Francisco, on the date upon which the Director of Finance notifies the Speaker of the Assembly and the President pro Tempore of the Senate of the completion of a state reorganization of transportation duties from the Public Utilities Commission to other agencies, if taxicab transportation services are included in the reorganization. **(AB 650/ Low)** *(Governor's Desk)*

Environment/ Recycling/ Water/ Cap and Trade

- **Cap and trade funds for disadvantage communities:** Requires that 25% of the Greenhouse Gas Reduction Fund be spent on projects located within disadvantaged communities, and requires that an additional 5% be spent on projects that benefit low-income households **(AB 1550/ Gomez)** *(Chaptered)*
- **Storm water capture and use:** Allows a public agency that captures storm water to use the water **(AB 2594/ Gordon)** *(Governor's Desk)*
- **Local funding for climate community plans:** Creates the Transformative Climate Communities Program to fund the development and implementation of neighborhood-level transformative climate community plans that include projects, which achieve local economic, and other benefits for disadvantaged communities **(AB 2722/ Burke)** *(Chaptered)*
- **Water district service to Indian tribes:** Require municipal water districts to provide water to an Indian tribe outside of the districts boundaries upon request of the tribe; this bill may set a precedent and encourage additional tribes or other parties to bypass the local process, and instead, ask for a statutory fix from the Legislature **(AB 2470/ Gonzalez)** *(Chaptered)*
- **Environmental justice plan:** Adds an environmental justice element that identifies disadvantaged communities to general plans **(SB 1000/ Leyva)** *(Governor's Desk)*

Marketplace Fairness / Remote Sales

There are multiple Federal remote sales tax proposals pending that have an overall lack of consensus to advance legislation. MuniServices is staying close to the issue and will notify clients of any future action.

- **Remote Transactions Parity Act:** Would not impose a new tax, but enable state and local governments to compel retailers to collect and remit sales taxes on online sales **(HR 2775)**
- **Marketplace Fairness Act (MFA):** MFA would give states the ability to collect state and local sales taxes from out-of-state Internet retailers based on the final destination of the purchase (and using the destination state's tax base) **(S 698)**
- **No Regulation Without Representation Act of 2016:** Would attempt to codify the physical presence requirement for sales and use tax collection and would specify what constitutes a sufficient physical presence **(HR 5893)**
- **Online Sales Simplification Act:** Remote sales would be taxable according to the tax base of the retailer's state, at a rate set by the buyer's home state **(Draft)**

SECTION 2: CANNABIS POLICY REVIEWCannabis Legislation

- **Tax penalty amnesty:** Between July 1, 2017 to December 31, 2017 for medical cannabis dispensaries to begin to comply with tax liabilities for reporting periods beginning January 1, 2015; depending on participation estimated one-time revenue increase of \$52.8 million (50% compliance); \$79.2 million (75% compliance); or \$105.6 million (100% compliance) **(AB 567/Gipson)** *(Governor's Desk)*
- **Tax payment options:** Allows the BOE to accept tax payments from dispensaries by means other than electronic fund transfers **(AB 821/ Gipson)** *(Governor's Desk)*
- **Tax on distribution:** Would have imposed a tax for distributing medical cannabis and if chaptered would have been inoperative if Proposition 64 passed **(AB 2243/ Wood)** *(Dead)*
- **Exempt from criminal sanctions:** Would exempt collectives and cooperatives that manufacture medical cannabis products from criminal sanctions under specified conditions, including a provision that requires a collective or cooperative to have a valid seller's permit issued by the BOE, has a valid local license or permit; and is in compliance with any local licensing conditions by the issuing local agency **(AB 2679/ Cooley)** *(Governor's Desk)*
- **Small growers:** Creates a "specialty cottage" medical cannabis cultivator sub-license license for small growers that grown less than 5,000 square feet; current law lumps all cannabis cultivation sites that are 5,000 square feet or less into one license. **(AB 2516/ Wood)** *(Governor's Desk)*
- **Excise tax:** Would have imposed an excise tax of 15 percent on medical marijuana for the consumption or use of this marijuana purchased from any retailer in California **(SB 987/ McGuire)** *(Dead)*



[State Budget Cannabis Highlights from 2016](#)

- **Department of Public Health:** \$3.4 million / 14 positions to carry out its regulatory responsibilities; \$500,000 to perform a comprehensive review of existing scientific evidence about the health consequences of marijuana use
- **Regulations:** Department of Consumer Affairs (DCA), California Department of Food and Agriculture (CDFA), and Department of Public Health (DPH) funding to develop and implement regulations and to begin development of IT projects for licensing of industry participants and tracking of medical marijuana products
- **Name Change:** Changes references from “medical marijuana” to “medical cannabis” in various provisions, including the names of the special fund and DCA bureau created in the original legislation
- **Licensing:** Clarifies that licensing departments have authority to create license types, set license fees, and conduct enforcement related to licensees. Authorizes implementing departments to provide conditional licenses and establish deadlines for applying for licensure
- **Testing Laboratory Licensing Authority:** Shifts authority to license laboratories from the DPH to DCA
- **Product Packaging and Safety:** Adds requirements for labeling and child-proof packaging
- **Protection of Instream Flows:** Provides a limited exemption to the California Environmental Quality Act for State Water Resource Control Board to adopt guidelines designed to protect aquatic habitats from negative effects associated with diverting water for marijuana cultivation

[State Regulations / Pre-Regulatory Meetings](#)

- **Bureau of Medical Cannabis Regulation:** Convening pre-regulatory meetings: September 19 to October 5. <http://www.bmcr.ca.gov/meetings/index.shtml>
- **Department of Food and Agriculture:** Convening public scoping workshops and a comment period: September 13 to September 28. <https://www.cdfa.ca.gov/is/mccp>
- **Department of Public Health:** Convening pre-regulatory meetings: September 19 to October 10. <https://www.cdph.ca.gov/programs/Pages/OMCSStakeholderMeeting.aspx>
- **State Board of Equalization:** <http://www.boe.ca.gov/news/marijuana.htm>

[Adult Use Marijuana Initiative Would Legalize the Recreational Use of Marijuana \(Proposition 64\)](#)

State Excise Tax on the Proposed Recreational Use: 15% on retail sales of marijuana; \$9.25 per dry-weight on the commercial cultivation of marijuana flowers; \$2.75 per dry-weight on the commercial cultivation of marijuana leaves

How Will Proposition 64 Change Current Law: Medical marijuana and marijuana products are exempt from the State and Local Sales and Use Taxes; will not impact locally adopted taxes on medical marijuana; the proposed excise tax under Proposition 64 is in addition the sales and use tax imposed by state and local governments

Local Authority: May adopt and enforce ordinances: to regulate businesses licenses, local zoning and land use; may completely prohibit marijuana type businesses

[September 27, 2016 \(2 pm to 3 pm\) Cannabis Webinar Registration](#)

An interactive discussion on Proposition 64, pending legislative measures, and their potential impacts on cities and counties.

Registration: <https://attendee.gotowebinar.com/register/5406587123023696130>

Resources: <http://www.muniservices.com/services/cannabis-support-services/>
<http://calmarijuanapolicy.org/section/news>



SECTION 3: LOCAL REVENUE AND SCHOOL BONDS

The Task Force on Bond Accountability (Task Force), created by the State Treasurer, developed best practice guidelines for how bond proceeds should be managed to reduce the risk of fraud, waste, and abuse and to identify strategies to increase transparency and oversight of the use of bond funds. http://www.treasurer.ca.gov/tfba/final_report.pdf

SB 222 from 2015 was designed to provide protection for GO bond investment in the event the local agency files for bankruptcy; local agencies and school districts issuing GO bonds are required to place a statutory lien on all property tax revenues derived from taxes levied to pay debt service on the GO bonds issue by the local agencies.

Legislation

SB 1029 according to the State Treasurer builds on the work of the Task Force and will give the public the information necessary to assess whether bond proceeds were utilized for their lawful and intended purpose. The bill would require the state to track and report on all state and local outstanding debt until fully repaid or redeemed. **(SB 1029/ Hertzberg)**
(Governor's Desk)

Legislative Resource: <http://www.treasurer.ca.gov/cdiac/mmra/update.pdf>

Proposition 51 and Proposition 53

California Public School Facility Bonds Initiative: Would support the state issuing \$9 billion in bonds to fund improvement and construction of school facilities for K-12 schools and community colleges. **Proposition 51**

California Public Vote on Bonds Initiative (#15-0003): Known as the "No Blank Checks Initiative," would require voter approval before the state could issue more than \$2 billion in public infrastructure bonds that would require an increase in taxes or fees for repayment. **Proposition 53**

See: <http://www.nytimes.com/2016/09/12/us/california-today-school-construction-bond-measure.html>

Bond Issuance Trends

California's Debt and Investment Advisory Commission published a report covering local general obligation (GO) bond issuance trends for years 2006 to 2015. <http://www.treasurer.ca.gov/cdiac/issuebriefs/201608.pdf>.

Voting trends: Local government GO bonds require 2/3rds voter approval; under Proposition 39 (2000) school and community college districts qualify for a lower voter approval threshold (55 percent) if the district agrees to restricted use and additional oversight of the bond proceeds.

The report highlights as an example, in 2013 there were 26 K-14 measures (80.8 percent passing) and in 2014 there were 170 measures (81.8 percent passing). For non-schools measures in 2013 there were 50 measures (71.7 percent passing) and in 2014 there were 174 measures (63.2 percent passing).

California City Finance reports in July 2016 there were over 150 local ballot measures with 89 proposed new revised or extended local bonds or taxes (<http://californiacityfinance.com/Votes1606final.pdf>).

Issuance: Between 2006 and 2015, local governments issued over 13,000 long-term bonds totalling \$379 billion. During the 10-year period, bond issuance activity peaked in 2007 followed by several cycles of decline in issuance volume through 2013. Issuance volume has risen in subsequent years, but is below peak issuance levels in 2007.

Types of projects financed depend of the type of debt: From 2006-2015, local governments issued a total of \$184.4 billion (49 percent) for capital improvements, \$110.9 billion (29.3 percent) for educational purposes, and \$30.9 billion (8.2 percent) for hospitals and health care facilities using both GO bonds and non-GO bonds.

GO bond issuance by region: The Los Angeles region issued the greatest total volume of GO bonds over the time frame, approximately \$36 billion (36.1 percent) followed by the Bay Area (\$28.2 billion, 28.3 percent) and San Diego (\$15.6 billion, 15.6 percent).



[Federal Accounting Standards Advisory Board Proposed Rule - Comments Due by September 15, 2016](#)

Would require the federal government to include in annual financial reports the revenue impact lost revenue from tax breaks. State and local government interests have fought proposals from the Administration and Congress to limit or repeal the exemption. FASAB indicates that reporting the impact of lost revenue from tax breaks will “allow users to gain a more complete understanding of the service efforts, costs and factors impacting federal revenues,” and is not meant to be an attack on federal tax breaks. http://files.fasab.gov/pdf/taxexpenditures_ed_2016.pdf

SECTION 4: NOVEMBER 2016 STATE BALLOT - SELECTED MEASURES OF INTEREST TO LOCAL GOVERNMENT

Sources: https://ballotpedia.org/California_2016_ballot_propositions

Proposition 51: California Public School Facility Bonds: Supports the state issuing \$9 billion in bonds to fund improvement and construction of school facilities for K-12 schools and community colleges.

Proposition 53: California Public Vote on Bonds Initiative: Known as the “No Blank Checks Initiative,” would require voter approval before the state could issue more than \$2 billion in public infrastructure bonds that would require an increase in taxes or fees for repayment.

Proposition 54: Legislature Transparency Amendment: Prohibits the Legislature from passing any bill unless it has been in print and published on the Internet for at least 72 hours before the vote, except in cases of public emergency.

Proposition 55: Tax Extension to Fund Education and Healthcare: Extends Proposition 30 (2012). Components include extending the temporary personal income tax increases on incomes over \$250,000 for 12 years to be used for education and health care funding. Proposition 30 had a sales tax component; Proposition 55 does not extend this provision (expires at the end of 2016).

Proposition 56: Tobacco Tax Increase: Increases cigarette tax by \$2.00 per pack with equivalent increase on other tobacco products and electronic cigarettes containing nicotine. The revenues would go primarily to increase funding for existing healthcare programs; also for tobacco use prevention/control programs, tobacco-related disease research and law enforcement, and administration. If the tax causes decreased tobacco consumption, transfers tax revenues to offset decreases to existing tobacco-funded programs and sales tax revenues.

Proposition 64: Control, Regulate and Tax Adult Use of Marijuana Act: Imposes state and excise tax on retail sales of marijuana equal to 15% of sales price, and cultivation taxes on marijuana of \$9.25 per ounce of flowers; \$2.75 per ounce of leaves; allows local regulation and taxation of marijuana. Revenue is expected upwards of \$1 billion annually.

Proposition 65: Dedication of Revenue from Disposable Bag Sales to Wildlife Conservation Fund: Approval would uphold the ban on plastic grocery bags and allocate revenue from state-mandated charges on bags to grocers for covering costs and education. If both Proposition 67 and 65 are approved, but Proposition 67 receives more “yes” votes, this allocation provision would supersede Proposition 65’s allocation provision.

Proposition 67: California Plastic Bag Ban Referendum to Ratify SB 270 from 2014: Backed by many locals, would prohibit large grocery stores and pharmacies from providing plastic single-use carryout bags and ban small grocery stores, convenience stores and liquor stores from doing so the following year; mandate stores to charge 10 cents for recycled, compostable and reusable grocery bags.