

IMPARTIAL ANALYSIS BY CITY ATTORNEY – MEASURE A  
CHARTER AMENDMENT – CITY OF SANTA CRUZ CHILDREN’S FUND

In November of 2014 the voters, by an 82% majority, approved a ballot measure adopting an ordinance (the “Ordinance”) amending the Santa Cruz Municipal Code to impose a tax on cannabis businesses operating in the City (the “Cannabis Tax”). The Ordinance authorized the City Council to set a maximum tax rate of ten percent (10%) of gross receipts, but set the initial tax rate at seven percent (7%) The Ordinance broadly defines "cannabis business" to include any for-profit or nonprofit business that distributes, delivers, dispenses, exchanges, barter or sells either medical or non-medical cannabis including, but not limited to, medical marijuana cooperatives and businesses, and any other business that transports, manufactures, compounds, converts, processes, prepares, stores, packages or sells, at wholesale or retail, cannabis or cannabis products. In October of 2018, and in accordance with the Ordinance, the City Council amended the Cannabis Tax to establish a variable rate structure based on business type, ranging from one percent (1%) for testing laboratories up to seven percent (7%) for cultivation, manufacturing and retail sales.

The Cannabis Tax is a “general tax” as defined by the California Constitution. As such, revenue it generates is deposited in the City's General Fund, which is used by the City to pay for municipal services provided to City residents and visitors including police, fire, emergency response, parks, street maintenance and pothole repair, libraries, youth and senior programs, economic development and job creation, affordable housing, and other essential city services. Since 2017 the City has, by Council Policy, allocated General Fund revenue equivalent to 12.5% of the funds generated by the Cannabis Tax to a dedicated Children’s Fund, to support enhancement and expansion of evidenced-based programs to prioritize access to early childhood development, prevention, and vulnerable youth programs. To date, the Children's Fund has provided scholarships for youth and children to access Santa Cruz Parks and Recreation programs, early learning support and, during the pandemic, childcare scholarships for essential workers. Because it was established by Resolution, the current Children’s Fund could be reduced or eliminated by future Council action.

If approved by the voters, this Measure would enshrine the existing Council Policy in the City Charter, adding Section 1432–City of Santa Cruz Children’s Fund, and would increase the amount of General Fund revenue allocated to the Children’s Fund to the equivalent of twenty percent of funds generated by the Cannabis Tax. For Fiscal Year 2022, this would have resulted in an increase in revenue allocated to the Children’s Fund from about \$212,000 to approximately \$340,000.

To ensure accountability, the Charter Amendment would require the City Council to establish a Community Oversight Panel to make recommendations on the use of future revenue and oversee Children’s Fund expenditures.

As a provision of the City Charter, Section 1432 could only be rescinded or amended by a future vote of the electorate.

This ballot measure has been placed on the ballot by the Santa Cruz City Council. It requires a simple majority to pass.