

## Measure Z – City of Santa Cruz soda tax

Santa Cruz city voters in November will decide whether to tax the distributors of soda and other sugar-sweetened beverages to discourage consumption and potentially raise \$1.3 million annually for city services.

Berkeley has had a similar soda tax since 2014 and San Francisco since 2018, but a state law since 2018 has stopped other California cities from pursuing soda taxes. Santa Cruz City Councilmember Martine Watkins and others challenged part of the state law in court. An appeals court upheld a ruling in their favor last year.

“The goal of this measure is to improve community health and support investments that advance community health and wellness in the City of Santa Cruz,” wrote Santa Cruz City Councilmembers Watkins, Sonja Brunner and Shebreh Kalantari-Johnson, in a [city report](#).

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### What is Measure Z, the sugar-sweetened beverage tax?

The measure would add a tax of two cents per ounce on distributors of sugar-sweetened beverages in the City of Santa Cruz.

For a 12-ounce can of soda, it would add 24 cents. The wholesale cost of a 12-pack of soda would likely rise in price by \$2.88.

“Sugar-sweetened beverages” have more than 40 calories per 12 fluid ounces with a caloric sweetener added. The tax would apply to:

- Soft drinks.
- Sports drinks.
- Energy drinks.
- Slushies.
- Sweetened teas and coffees.

- Natural juices that have sugar like apple juice, orange juice and coconut water.
- Milk and milk substitute products like almond milk and soy milk.
- Beverages for diet supplements or medical purposes.

Grocery stores, wholesalers and distributors with more than \$500,000 in gross annual revenue would pay the tax, according to the measure. Smaller businesses with annual revenue below \$500,000 would be exempt from the tax.

Consumers and restaurateurs would not pay the tax directly. However, soda prices are expected to rise as grocery stores and other businesses pay higher wholesale prices with the tax. A recent study of five cities with a soda tax found that on average about 90% of the increased cost was passed on to shoppers.

The tax would start May 1, 2025 and continue indefinitely.

#### **What is the text of Measure Z?**

*"To sustain vital City services such as improving/maintaining neighborhood parks/beaches/open space, providing safe routes to schools, expanding community recreational/youth/senior programs, addressing crime/public safety, improving bike/pedestrian safety, and help fight diabetes, heart disease, and childhood obesity, shall City of Santa Cruz's measure levying a two-cents per ounce tax for general governmental use on the wholesale distribution of sugar-sweetened beverages (e.g., sodas, energy drinks); generating \$1,300,000 annually, until ended by voters, be adopted?"*

The Santa Cruz City Council [resolution to put the measure on the Nov. 5 ballot](#) contains additional information.

#### **What does a "yes" vote mean?**

A "yes" vote would impose a \$0.02 tax per fluid ounce on sugar-sweetened beverages on wholesale distribution in the City of Santa Cruz. Retailers or distributors who receive, sell, or distribute sugar-sweetened beverages in the city would have to register and pay the tax to the city.

All revenue would go into the city's General Fund and could be spent on any city purpose.

#### **What would a "no" vote mean?**

A "no" vote would not impose the tax on sugar-sweetened beverages in the city.

#### **Where would the money go?**

Money from the tax would go into the city's General Fund and could be used for any city purpose. A community oversight panel would make recommendations for its use.

The tax is expected to add about \$1.3 million to the city's General Fund annually. "Future annual tax receipts are likely to decline to a new lower base as businesses and consumers change purchasing and consumption behavior over time," according to a city report.

Santa Cruz City Councilmembers Martine Watkins, Sonja Brunner and Shebreh Kalantari-Johnson have described many potential ways to spend the money, but there are no guarantees how the money would be spent.

- Maintaining parks and facilities that are accessible, vibrant, and safe.
- Supporting programs that provide positive opportunities for children and youth. Maintaining active recreation programs and facilities for seniors, children, and people of all ages.
- Supporting community-based organizations that contribute to community health and wellness,” the council members wrote.

Many respondents in a city poll said they wanted the money to help improve parks, beaches and open spaces.

#### **How would the money be collected?**

Soda “distributors will use an online form for tracking and reporting total number of taxable ounces of sugar sweetened beverages distributed and can remit payment using the city’s online tax portal,” Santa Cruz City Councilmembers Martine Watkins, Sonja Brunner and Shebreh Kalantari-Johnson wrote in a city report.

“Many local businesses already utilize the online tax portal for purposes of remitting other taxes and are familiar with the process,” they wrote.

#### **Arguments for Measure Z**

More than 50 nations and some U.S. cities have soda taxes which have helped reduce sugar consumption and in some cases led to the reformulation of soft drinks to reduce sugar.

“Sugary drink habits lead to increased risks of Type 2 diabetes, childhood and adult obesity, heart disease, liver disease and metabolic disorder,” according to [research from Brigham and Women’s Hospital](#) and other studies.

In Santa Cruz County, about 16% of children ages 2-11 are overweight for their age, compared with about 15% statewide, according to a [2022 Dignity Health study](#). “Adult obesity and overweight are highest among the county’s Latino population, while obese adults are overrepresented among the county’s multiethnic population,” according to the same study.

Nationally, Black and Mexican American consumers were about three times more likely to buy sugar-sweetened beverages than white consumers, according to a [2008 study published in the Journal of Urban Health](#). Lower income households were also more likely to buy sugary drinks, according to the study.

A [recent study of five U.S. cities](#) that adopted taxes on sugar-sweetened beverages found that purchases of such beverages decreased by nearly one-third. Published in the Journal of the American Medical Association, the study also found that distributors passed on most of the cost increase to consumers.

A 2014 soda tax in Mexico helped reduce soda consumption with higher results among lower-income households, residents living in urban areas, and households with children, according to [a peer-reviewed study](#) in the journal Health Affairs.

Official arguments for and against the ballot measure have not been published as of Aug. 1.

#### **Arguments against Measure Z**

Prices of soda and other sugary drinks would rise. People with lower incomes tend to spend more on sugar-sweetened drinks than others, some research has suggested. Higher soda costs would hit low-income budgets harder than those of higher earners.

voters adopt the tax. Legal defense fees would be paid out of the city's General Fund unless other entities contribute.

A soda tax in Philadelphia helped reduce soda consumption, but it also prompted an increase in soda purchases outside the city and an increase in purchases of other sugary goods, according to [University of Georgia research](#).

Another way to improve health would be to help residents install filtered water systems or otherwise make drinking water cheaper. "Subsidizing water, making it more accessible, particularly in places where tap water is not drinkable, these are things that might make going with the healthier choice easier," said Felipe Lozano-Rojas, lead author of the University of Georgia study.

Official arguments for and against the ballot measure have not been published as of July 31.

### Legal considerations of Measure Z

The City of Santa Cruz proposed a similar tax measure in 2018, but removed the measure from the ballot when state law established penalties for cities pursuing taxes on groceries.

"Unfortunately, what we saw was basically the industry strong-arming our legislators into passing the Keep Groceries Affordable Act, which essentially stopped our ability to move forward without major penalties," Santa Cruz City Councilmember Martine Watkins said at a June 25 Santa Cruz City Council meeting.

After the passage of the Groceries Act, Fresno-based nonprofit Cultiva La Salud and Watkins sued the state, successfully arguing that the penalty provisions in the law were unconstitutional.

A provision in the law penalizes cities that enact a sugary drink tax by taking away that city's sales tax revenue. In March 2023, the Third District Court of Appeals [upheld a lower court's ruling](#) that found the law "improperly uses the threat of crippling penalties to chill charter cities from exercising their constitutional rights."

"We have an opportunity now to put this back to the people. To reinstate the power of the people," Watkins said.

Tim James of the California Grocers Association said that while its penalty provision has been deemed unenforceable, the Groceries Act itself has not been overturned, leaving its legality in question.

"The pre-emption on local agencies passing these types of taxes still remains. Placing this tax on the ballot will knowingly defy state law, and is making promises that cannot be guaranteed," James said.

Santa Cruz Mayor Fred Keeley, who ultimately voted for the measure, said Santa Cruz would be the first city to pass such a measure since the 2018 act and would likely face legal challenges.

"The industry is not even pretending they're not going to sue us over this," Keeley said. "They're very clear, they don't think this is settled law at all."

He also said Santa Cruz had not secured any promises from other cities or entities to fund potential legal defense. "As I understand it, we're taking this action today with not one entity standing with us to agree to defend us on this if there's litigation," Keeley said in June.

Watkins said other entities were "certainly standing behind [Santa Cruz], but we have to have something for them to stand behind before they give direct dollars."

## City resolution text and more information

- City resolution to put measure on Nov. 5 ballot
- Official text of measure on the Nov. 5 ballot

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