County of Santa Cruz Board of Supervisors
Agenda Item Submittal
From: County Executive Office
Subject: Urgency Ordinance and Resolutions to Establish Temporary Supplemental Transactions and Use Tax, Declare State of Fiscal Distress, and Call a Special Election on November 3, 2026
Meeting Date: August 4, 2026

Formal Title: Consider adopting a resolution declaring a state of fiscal distress, adopting an "Urgency Ordinance Amending Chapter 4.22 of the Santa Cruz County Code to Establish a Temporary Supplemental One-Half Cent Transactions and Use Tax to Address Conditions of Persistent Fiscal Distress", adopting resolutions calling for a special election on November 3, 2026, for a countywide measure to increase the retail transactions and use tax (sales tax) by one-half cent for five years, and establishing budget priorities if the sales tax measure passes, and take related actions (4/5 vote required)

Recommended Actions

1. Adopt a resolution declaring a state of fiscal distress;

2. Adopt by 4/5 vote an "Urgency Ordinance Amending Chapter 4.22 of the Santa Cruz County Code to Establish a Temporary Supplemental One-Half Cent Transactions and Use Tax to Address Conditions of Persistent Fiscal Distress";

3. Adopt a resolution calling for a special election on November 3, 2026, to submit to the qualified electors of the County of Santa Cruz a countywide measure proposing a one-half cent increase in the retail transactions and use tax (sales tax) for a period of five years (a measure to approve the urgency ordinance);

4. Adopt a resolution establishing budget priorities, contingent on the approval of the sales tax measure on November 3, 2026;

5. Direct the Clerk of the Board to submit the resolution calling for the election to the Santa Cruz County Clerk no later than 5:00 p.m. on Friday, August 7, 2026;

6. Direct the Auditor-Controller-Treasurer-Tax Collector and County Counsel to prepare the fiscal impact statement and impartial analysis required by the Elections Code and transmit them to the Santa Cruz County Clerk no later than 5:00 p.m. on Thursday, August 13, 2026; and

7. Direct the County Executive Office to return to the Board of Supervisors following the November 3, 2026 election with any actions necessary to implement the measure, should it be approved by the voters.

Executive Summary

Santa Cruz County is entering a period of fiscal uncertainty resulting from recent federal legislation, administrative actions, and related State fiscal impacts that substantially reduce funding for healthcare and safety-net programs while increasing demand for locally funded services. These changes shift additional fiscal responsibility to counties.

Santa Cruz County's existing General Fund constraints limit its ability to absorb these new costs and service demands without additional local resources.

Today's recommendations present a coordinated response to these conditions. Staff recommends that the Board of Supervisors (Board) declare a state of fiscal distress, adopt an urgency ordinance to amend Santa Cruz County Code to add a temporary supplemental one-half cent countywide transactions and use tax, call for an election on November 3, 2026 to obtain voter approval of the urgency ordinance, and establish budget priorities that would guide future appropriations should the measure be approved by the voters.

Today's action provides Santa Cruz County voters the opportunity to determine whether they wish to authorize a temporary, locally controlled funding source to help stabilize essential healthcare and human services during a period of significant fiscal disruption.

Discussion

Santa Cruz County Has Limited Capacity to Absorb New Federal Costs

Santa Cruz County entered Fiscal Year 2026-27 facing a structural General Fund imbalance that limits its ability to absorb significant new costs. Like many California counties, the County has experienced sustained growth in personnel costs driven by the high cost of living and the need to recruit and retain the workforce required to provide a diverse and complex set of public services. Revenue growth has not kept pace with these ongoing cost pressures, requiring continued efforts to align expenditures with available resources.

The County has already taken meaningful steps to improve its long-term fiscal position, including hiring controls, eliminating vacant positions, improved operational efficiencies, expenditure reductions, and the strategic use of one-time resources. While these actions represent meaningful progress, they do not fully eliminate the County's limited fiscal capacity to respond to major new federal funding reductions.

Federal and State Changes Increase Pressure on Local Services

Recent federal legislation, administrative actions, and related state fiscal decisions have significantly changed the fiscal environment in which Santa Cruz County and its community partners deliver healthcare and human services. Since the enactment of H.R. 1 and subsequent federal administrative actions, Santa Cruz County has been evaluating the substantial and increasingly visible consequences for California residents, health-care providers and county safety-net systems.

Beginning in 2027, many adults will be required to document at least 80 hours per month of work, education, training or qualifying community service and will undergo Medi-Cal eligibility reviews every six months rather than annually. These requirements are expected to cause significant coverage losses, including among eligible residents who have difficulty completing or documenting the new requirements. The Central California Alliance for Health projects a 27 percent decline in Medi-Cal membership across its five-county service area between January 2025 and December 2028 due to eligibility losses associated with H.R. 1, the end of pandemic-era enrollment protections and related state budget changes, and actual enrollment losses through May 2026 have closely tracked that projection. With Medi-Cal providing more than $1 billion in annual spending across Santa Cruz County, the loss to the county's provider network is likely to eventually exceed $200 million annually at minimum. The California Department of Health Care Services estimates about 1.1 million Californians will lose Medi-Cal coverage statewide, although some researchers have placed the number as high as 2.98 million Californians by 2028.

For California counties, these coverage losses also represent a direct fiscal and operational cost shift. The California State Association of Counties estimates that H.R. 1 could impose between $6 billion and $9.5 billion in annual costs and lost revenues on counties and county-affiliated health systems when fully implemented. This includes an estimated $2 billion to $5.5 billion annually for indigent medical care as residents lose Medi-Cal coverage, approximately $3.4 billion in annual revenue losses to public hospital systems, and county eligibility-administration costs projected at $484 million in 2026-27 and $574 million in 2027-28. H.R. 1 also reduces the federal share of CalFresh administrative costs from 50 percent to 25 percent beginning in October 2026, creating an estimated additional annual county cost of $211 million. These pressures will arrive as counties face greater demand for emergency medical, mental health, food-assistance and other safety-net services, without a corresponding source of funding to replace lost federal support.

To date, Santa Cruz County has identified approximately $25.6 million in annual impacts from federal actions, with additional impacts anticipated as future provisions are implemented. Over the next five years, federal actions could result in more than $150 million in increased costs and reduced revenues to the County and its community partners.

Many of these changes affect core healthcare and safety-net programs, including ambulance and emergency room access, Medi-Cal and CalFresh, through reduced federal participation, changing eligibility requirements, increased administrative workload, and greater responsibility placed upon local governments. DataShare Santa Cruz County has established an H.R. 1 Dashboard to explain the changes and track local impacts.

Residents Will Feel the Impacts Across the Safety Net
Santa Cruz County's safety net extends well beyond County government. It includes local hospitals, emergency departments, ambulance providers, community health centers, mental health and substance use providers, food banks, housing providers, school partners, and numerous nonprofit organizations.

Because these systems rely on each other, changes in one area can ripple throughout the safety net. Currently over 80,000 (1 in 3) county residents are served by these systems. With federal and State funding being reduced, residents are more likely to lose access to healthcare, food assistance, housing support, and other essential services. As demand for local services increases and financial resources decline, all residents face longer waits for care, fewer available supports, and greater barriers to meeting their basic needs.

At the same time, Santa Cruz County and its community partners have made meaningful progress expanding mental health and substance use services, reducing homelessness, improving care coordination, and strengthening partnerships across the healthcare and human services system. Should the Board approve today’s actions, Santa Cruz County voters would be presented with a choice on how best to preserve that progress during a period of fiscal uncertainty.

The County Has Taken Significant Action
Even before these changes take full effect, Santa Cruz County is acting to implement measures preparing for their impacts.

Staff continue to modernize County operations, improve financial forecasting, pursue operational efficiencies, leverage new technology, reduce administrative costs where possible, and strengthen partnerships with community organizations and healthcare providers. The County is also coordinating regional planning, supporting residents in maintaining healthcare and nutrition benefits, pursuing state and federal advocacy, and implementing a multi-year fiscal stabilization strategy.

These efforts reflect the Board's commitment to continuous improvement and responsible stewardship regardless of the outcome of the proposed tax measure.

Santa Cruz County has been addressing long-term structural budget challenges through expenditure reductions, hiring controls, operational efficiencies, and other fiscal stabilization measures. However, the enactment of H.R. 1 and subsequent federal administrative actions have fundamentally altered the County's fiscal outlook by substantially reducing federal support for healthcare and other safety-net programs while increasing administrative responsibilities and demand for local services. These external changes are projected to result in more than $150 million in increased costs and reduced revenues to the County and its community partners over the next five years, creating extraordinary fiscal pressures that cannot be addressed through routine budget adjustments alone. The combination of existing structural fiscal challenges and unprecedented federal funding reductions constitutes a state of fiscal distress requiring immediate action to preserve essential public services and maintain the long-term sustainability of the County's healthcare and human services safety net.

A Temporary Local Revenue Measure Provides Additional Flexibility
Senate Bill 762, currently pending before the California Legislature, would authorize various jurisdictions, including Santa Cruz County, to exceed the existing local transactions and use tax rate limitation by up to one-half of one percent, thereby providing additional local flexibility to address essential public service needs if enacted.

Per Government Code section 25123, the Board can adopt by 4/5 vote an urgency ordinance for the immediate preservation of the public peace, health, or safety that requires one reading and takes effect immediately. Given the urgencies related to this item and the limited time remaining to place a measure on the November 2026 ballot, staff recommends that the Board adopt an urgency ordinance that amends Santa Cruz County Code Chapter 4.22 to establish a temporary supplemental countywide transactions and use tax.

In conjunction with this, staff recommends that the Board call an election for voters to approve the ordinance and authorize collection of the tax at the November 3, 2026, General Election. Although the urgency ordinance will take effect immediately, it will not be implemented (no tax would be collected) unless the measure is approved by voters.

The attached resolution calls for a special election on the following measure:

TEMPORARY EMERGENCY MEDICAL, HEALTHCARE, FOOD, HOUSING, AND ESSENTIAL SERVICES PROTECTION MEASURE. To keep local hospitals/emergency rooms open, protect ambulance response, sustain access to urgent healthcare, including reproductive and mental health care, support local food/housing assistance and other essential services, and partially restore critical lost federal funding, shall the County of Santa Cruz be authorized to collect a supplemental half-cent (0.5%) general sales tax for 5 years, providing $27,000,000 annually in locally controlled funds?

YES ____ NO ____

If approved by a majority of voters, the measure will:

- Increase the countywide transactions and use tax by one-half cent for a period of five years;
- Generate approximately $27 million annually beginning in Fiscal Year 2027-28, with all revenues deposited into the County General Fund; and
- Authorize future appropriations through the County's annual public budget process in accordance with applicable law.

Because the measure is proposed as a general tax, the Board cannot legally dedicate revenues to specific programs. However, staff recommends adoption of a companion resolution establishing budget priorities that would guide future appropriations if the measure is approved.

Budget Priorities if Approved by Voters

If approved by voters, revenues generated by the measure would be appropriated through the County's annual budget process consistent with Board priorities, including:

- Protecting emergency medical services and healthcare, including hospitals, emergency departments, ambulance response, community health centers, reproductive healthcare, and indigent healthcare.
- Strengthening mental health services, substance use disorder treatment, crisis response, youth mental health and substance abuse services, school partnerships, and mobile crisis response.
- Reducing food insecurity through partnerships with food banks, nutrition programs, CalFresh outreach and administration, and employment and training services.
- Preserving housing stability through homelessness prevention, outreach, shelter, supportive housing, and housing stabilization services.
- Maintaining other essential safety-net services serving older adults, veterans, children and families, people with disabilities, and other vulnerable populations.
- Supporting planning, innovation, technology, and coordination that strengthen the long-term resilience of Santa Cruz County's healthcare and human services system.

These priorities are advisory policy direction only and do not alter the Board's authority to appropriate General Fund revenues through future public budget hearings. Due to the rapid pace at which the federal government continues to pass legislation and take administrative actions that impact local programs, and because local impacts are still evolving, staff will develop annual spending plans so that the County maintains flexibility over these locally-controlled funds and can direct them to the greatest needs countywide aligned with these priorities.

Helping the County Navigate a Five-Year Transition
The proposed measure is one component of a broader fiscal stabilization strategy.

Regardless of the outcome of the election, the County will continue modernizing operations, evaluating service delivery models, pursuing efficiencies, investing in technology, and aligning resources with the goals and priorities established in the County's Strategic Plan.

The recommended actions provide a comprehensive response by recognizing the County's current fiscal condition, establishing policy priorities, and allowing Santa Cruz County voters to determine whether they wish to authorize a temporary, locally controlled funding source to help preserve essential services.

Financial Impact
Approval of today's recommendations will not have an immediate fiscal impact on County operations beyond the costs associated with conducting the November 3, 2026 election.

If approved by the voters, the proposed transactions and use tax is estimated to generate approximately $27 million annually for five years. Revenues would be deposited into the County General Fund and appropriated by the Board of Supervisors through future annual budget actions consistent with applicable law and Board policy priorities. An annual spending plan will be developed so that the County maintains flexibility over these locally-controlled funds and can direct them to the greatest needs countywide aligned with the budget priorities.

Strategic Initiatives
Equity Framework - Plans, Policies & Budgets
Operational Plan - Comprehensive Health & Safety, Operational Excellence

Submitted By:
Nicole D. Coburn, County Executive Officer

Recommended By:
Nicole D. Coburn, County Executive Officer

Artificial Intelligence Acknowledgment:
ChatGPT 5.2, an Artificial Intelligence (AI) large language model tool, significantly contributed to the development of this agenda item, including Staff Report, in compliance with the County of Santa Cruz AI Appropriate Use Policy.