



Cannabis Business Licensing

Inadequate Oversight and Inappropriate Expenditures Weaken the Local Jurisdiction Assistance Grant Program

Background

In November 2016, California legalized the nonmedical personal use of marijuana (cannabis) for adults 21 years of age or older. To operate legally, a cannabis business must obtain a license from the State—a process that involves complying with any local cannabis permitting processes and complying with or demonstrating an exemption from the California Environmental Quality Act. The State initially issued provisional licenses to encourage cannabis businesses to transition into the newly regulated market while they actively pursued their annual state licenses. However, most provisional licenses will no longer be effective after January 1, 2026. As a result, cannabis businesses must transition their provisional licenses to annual state licenses if they wish to continue operating legally after this date. The State created the Local Jurisdiction Assistance Grant Program (Grant Program) to assist selected cities and counties (grantees) to transition provisional licenses to annual state licenses.

Key Recommendations

- DCC should institute a grants management policy to better align its management of grant programs with best practices, such as by establishing benchmarks or other criteria to measure progress.
- To determine whether grantees' expenditures are appropriate, DCC should immediately begin reviewing grantees' expenditures.
- Grantees should review and reconcile their expenditures, clarify with DCC about whether their expenditures are allowable, and reimburse Grant Program funds from their general fund for any unallowable expenditures.

Key Findings

- The Grant Program may not achieve its goal to transition all provisional licenses before the program ends in June 2025.
 - » As of January 1, 2023—the end of the Grant Program's first year—more than 4,600 provisional license holders in the 17 grantees' jurisdictions still needed to obtain annual state licenses.
 - » Although about 530 provisional licensees transitioned to annual state licenses during that first year, this rate was not substantially different in the year before the Grant Program.
- DCC's administration and oversight of the Grant Program did not follow certain best practices.
 - » DCC did not ensure that grantees provided measurable benchmarks for each goal in their grant agreements, which has resulted in DCC not being able to measure progress toward those goals.
 - » DCC did not establish sufficient monitoring of grantees' expenditures or request documentation for those expenditures, which would have revealed unallowable and underreported costs.
- Two grantees did not adequately track \$729,000 of staff costs related to the Grant Program. Additionally, two grantees could not substantiate that \$26,000 of spending was appropriate.

A Significant Number of Provisional Licenses at the 17 Grantees Remained Active in January 2023

