



## Cannabis Business Licensing

Local Jurisdictions Have Made Progress to Meet Goals of the Local Jurisdiction Assistance Grant Program, but Some Inappropriate Expenditures Persist

### Background

Under California law, a cannabis business must generally obtain an annual state license to operate legally. The State initially issued provisional licenses to encourage cannabis businesses to enter the newly state-regulated market. However, most provisional licenses will no longer be effective after January 2026. To continue operating legally in California after that date, cannabis businesses holding provisional licenses must obtain annual state licenses.

The 2021 Budget Act appropriated \$100 million for the Local Jurisdiction Assistance Grant Program (Grant Program) to assist 17 selected cities and counties (local jurisdictions) in helping cannabis businesses with provisional licenses that needed the greatest assistance in obtaining annual state licenses. In this report, we reviewed five local jurisdictions to determine whether they are on track to transition most of their existing provisional licenses by the State's deadline of January 1, 2026, and whether they spent Grant Program funds appropriately.

### Two Local Jurisdictions We Reviewed Spent Some Grant Program Funds for Unallowable Purposes

LOCAL JURISDICTION	AMOUNT OF UNALLOWABLE SPENDING AND TOTAL AMOUNT REVIEWED	UNALLOWABLE EXPENDITURES
City of Oakland	<b>Unallowable: \$35,000</b> Total reviewed: \$565,000 Total spent as of June 30, 2024: \$4,460,000 Percent reviewed of total spent: 13%	Oakland used grant funds to help one business pay for its website and another business to help pay rent, among other expenses. Because these expenses are not necessary to transition licenses from provisional to annual, we believe they were unallowable.
County of Sonoma	<b>Unallowable: \$13,000</b> Total reviewed: \$106,000 Total spent as of June 30, 2024: \$893,000 Percent reviewed of total spent: 12%	Some of the staff at Sonoma County spent time on activities that do not relate to transitioning provisional licenses such as reviewing vacation rental permits and reviewing permits for cannabis businesses that did not have a provisional license.

### Key Findings

- Despite some progress in reducing the number of cannabis businesses with provisional licenses, local jurisdictions continue to face challenges.
  - » The 17 local jurisdictions that received Grant Program funds reduced the number of active provisional licenses from 4,600 as of January 1, 2023, to nearly 2,300 as of June 30, 2024. These reductions included those cannabis businesses that transitioned to annual licenses and those that had other outcomes, such as expired or revoked licenses or those that merged with another license.
  - » We project that if local jurisdictions continue to transition at the same pace, 11 of 17 local jurisdictions will not have any cannabis businesses with provisional licenses remaining by the State's deadline, but the remaining six local jurisdictions will still have provisional licenses remaining. These cannabis businesses will have to cease operations until they comply with all requirements to obtain annual state licenses.
- Two of five local jurisdictions we reviewed—the city of Oakland (Oakland) and Sonoma County—spent some Grant Program funds for unallowable purposes that did not further the purpose of the Grant Program.
  - » Oakland spent \$10,000 to help one cannabis business pay for its website and spent \$25,000 to help another business pay its rent, among other expenses.
  - » Sonoma County staff spent about \$13,000 on activities unrelated to the Grant Program's goals, such as reviewing vacation rental permits and reviewing permits for cannabis businesses that did not have a provisional license.
- Although DCC has developed criteria for determining whether a local jurisdiction is eligible to receive the remaining share of its grant award, it was unclear about the reasoning for its denial of two local jurisdictions' applications for additional grant funding. DCC questioned the allowability of some Grant funds these jurisdictions spent. However, in its denial letters, DCC did not disclose specific examples of unallowable uses.

### Key Recommendations

- DCC should revise its grant administration policy to ensure that its written communication sent to local jurisdictions includes a sufficient amount of detail and examples upon approving or denying local jurisdiction funding.
- Oakland and Sonoma County should regularly review their expenditures, clarify with DCC whether their expenditures are allowable, work with DCC to correct previously submitted biannual reports to reflect appropriate expenditures, and return to the Grant Program the amounts of any unallowable expenditures they identify.