

Response to 2025 Grand Jury Report

County Executive Office

Cannabis Taxation and
Expenditures



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one
FUTURE

Introduction

- On June 20, 2025, the 2024-25 Santa Barbara County Grand Jury distributed a report titled “Cannabis Taxation and Expenditures”
- Focused on right-sizing Cannabis Program expenditures considering program contraction and diminishing revenues
- Lists five findings and recommendations in two categories, Cannabis Tax Revenue and Expenditures; and Cannabis Tax Oversight, Compliance, and Enforcement
- The Board is required to respond to Findings and Recommendations listed in the report within 90 days

Background

- The Cannabis Program is committed to ensuring a well-regulated cannabis industry, which includes managing an efficient licensing and taxation program, achieves program full-cost recovery and ensures a balanced budget.
 - Eight Divisions and Departments are actively involved in cannabis business licensing activities and work collaboratively to ensure compliance with Chapter 50
 - The Board adopted ordinance amendments to ensure timely payment of cannabis tax revenues, and the Treasurer-Tax Collector ensures accurate reporting and payment
 - CEO staff regularly review Cannabis Program licensing revenue to achieve full-cost recovery
 - CEO staff provide quarterly Cannabis Program updates including budgeted and revised revenue, and quarterly revenue actuals

Cannabis Tax Revenue & Expenditures

Findings 1, 2, 3 and 5



Findings and Recommendations

Finding 1: *Cannabis tax revenues have been declining due to market oversupply and price collapse, stressing the County's operating expenditures for the Cannabis Program.*

Agree – Cannabis tax revenues are indeed declining and could stress the County's operating expenditures if timely reductions and corrective measures were not recently implemented. The Board recently directed several changes to right-size cannabis tax revenue spending.

Recommendation 1: *The Grand Jury recommends that the Board of Supervisors ensure that the Cannabis Program's annual operating expenditures do not exceed annual cannabis tax revenues.*

Has been Implemented – Operator-paid cannabis business licensing fees pay for most Cannabis Program licensing activities. Cannabis tax revenue is not the primary funding source for the Cannabis Licensing Program annual operating expenditures. At the FY 2025-26 Budget Workshops on April 16, the Board directed the CEO's Office to recommend reductions to cannabis revenue expenditures of \$1.2 million - enough to cover the budget shortfall and balance the program budget with no planned draw from reserves. The June 17, 2025 adopted program budget resulted in reducing approximately \$1.28 million to close the fiscal year 2025-26 ongoing revenue and expenditures gap.

Findings and Recommendations

Finding 2: *The County's allocation for deferred maintenance and capital project expenses from cannabis tax revenue has not been adjusted to reflect the decline in tax revenue over the past five years.*

Disagree – During the fiscal year 2023-24 budget hearings, the Board recognized the dip in cannabis revenues and brought ongoing costs in line with projected ongoing revenues by replacing \$3,010,800 of ongoing costs in programs and projects unrelated to administration of the Cannabis Program with other discretionary general revenues. \$846,600 of this swap was towards deferred maintenance, reducing the amount of cannabis tax revenue going toward deferred maintenance to the \$1,572,800 it remains at today. This represented a 35% reduction in the amount of cannabis tax revenue funding deferred maintenance.

Recommendation 2: *The Grand Jury recommends that the Board of Supervisors revisit its capital projects allocation to be funded by cannabis tax revenues, ensuring that such allocations do not exceed available funds.*

Has been Implemented – The Board took direct action on this recommendation on June 3, 2025 prior to issuance of the Grand Jury report on June 20, 2025. Capital project expenditures were reviewed, and proportional reductions were made to eliminate the budget shortfall and preserve the reserve balance. No new capital projects were added to the fiscal year 2025-26 cannabis budget.

Findings and Recommendations

Finding 3: *Current County budget projections indicate that Cannabis Program ongoing expenditures will exceed expected cannabis tax revenues by \$1.1 million in fiscal year 2025-26, posing a burden on County taxpayers.*

Partially Disagree – The fiscal year 2025-26 Cannabis Program ongoing expenditures could have exceeded projected cannabis tax revenues if the Board had not acted and made appropriate reductions on June 17, 2025.

Recommendation 3: *The Grand Jury recommends that the Board of Supervisors prioritize covering the direct operating costs of the Cannabis Program so as to achieve more balanced budgets in the future.*

Has been Implemented – During the Budget Workshops, the Board directed the CEO's Office to return with a recommendation to reduce ongoing Cannabis Program expenditures instead of relying on the fund balance, addressing the estimated \$1.2 million gap. As referenced in the response to Finding 1, the Board adopted the recommended reductions to achieve a balanced budget. In addition, CEO staff conducted a Cannabis Licensing and Regulation fee study in fiscal year 2024-25 which updated fees to achieve full-cost recovery and reduced the licensing team by 1.0 full-time equivalent (FTE) to account for program contraction.

Findings and Recommendations

Finding 5: *Despite declining illicit cannabis cultivation activity in the County, a significant portion of the County's cannabis tax revenues continue to be allocated to combat this activity each fiscal year.*

Partially Disagree – Finding 5 was an accurate statement up until fiscal year 2025-26. Originally, ongoing Sheriff expenses were focused on enforcement activities against the illegal market to ensure the new, regulated program could prosper. Over the past seven years, the County Cannabis Program has matured and normalized, necessitating a different approach to cannabis program licensing and enforcement activities.

Recommendation 5: *The Grand Jury recommends that the Board of Supervisors annually reevaluate the allocation of cannabis tax revenue for combating illicit cannabis cultivation activity in the County.*

Has been Implemented – At the June FY 2025-26 Budget Hearings, County staff presented options to re-envision the Sheriff's Office Enforcement Team remaining \$1.5 million dollar budget. The Board adopted a proposal that reduced the Cannabis Enforcement Team budget dedicated to the illicit market. Two detectives were reassigned to the North and South County Narcotics Teams as Cannabis Specialists; these are ongoing positions. The third detective was reassigned to manage the county-wide warrant's backlog funded with one-time monies.

Cannabis Tax Oversight, Compliance & Enforcement

Finding 4



Findings and Recommendations

Finding 4: *Currently Santa Barbara County's budgeting, tracking, and reporting of cannabis related revenue, expenses, and compliance violations are decentralized, making it difficult to provide comprehensive and detailed information on demand.*

Partially Disagree – The County's budgeting, tracking, reporting of cannabis related revenue and expenses are managed in a centralized financial system accessible by applicable County staff in the Treasurer-Tax Collector's office and in the CEO's Office. Reports can be run on demand to provide timely, comprehensive, and detailed information upon request. Cannabis program management documents are managed in Accela, the County's online tracking software. Accela stores the application, inspection dates, and license approvals.

Recommendation 4: *The Grand Jury recommends that the Board of Supervisors direct the County Executive Officer to develop an automated and centralized information database to track and report the budget, revenues, expenses, and administrative activities related to licensing and compliance specific to the Cannabis Program.*

Will not be Implemented – The Cannabis Program utilizes two centralized information databases, a financial system and licensing system. The financial system includes all budget, revenue, and expenses. The licensing system includes cannabis business license applications, inspection dates, and license approvals. The CEO Office is confident the existing systems provide timely, accurate information on demand.

Recommended Actions

- a) Consider and adopt the responses in Attachment A as the Board of Supervisors' response to the 2024-25 Grand Jury report entitled "Cannabis Taxation and Expenditures";
- b) Authorize the Chair to sign the letter included in Attachment A, and forward the letter and responses to the Presiding Judge of Santa Barbara County Superior Court; and
- c) Determine pursuant to CEQA Guidelines 15378(b)(5) that the above actions are not a project subject to CEQA review, because they are government administrative activities that do not result in direct or indirect physical changes to the environment.



Questions?