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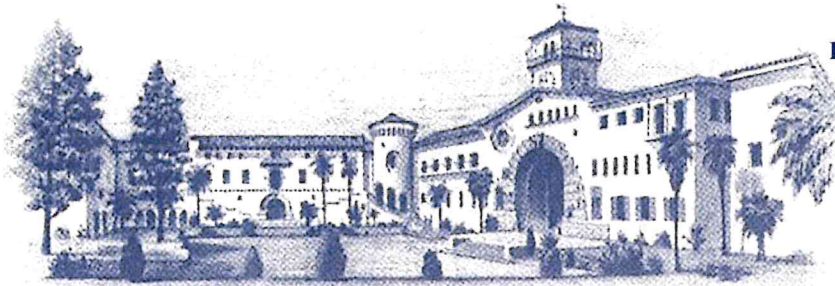
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COUNTY OF SANTA BARBARA

August 19, 2025

Honorable Patricia Kelly
Presiding Judge
Santa Barbara Superior Court
County Courthouse
1100 Anacapa Street
Santa Barbara, CA 93101

Reference: Response to Santa Barbara Civil Grand Jury report titled, "Cannabis Taxation and Expenditures"

Judge Kelly:

Please find attached the Santa Barbara County Board of Supervisors (Board) response to the above referenced Civil Grand Jury Report. As directed by the Grand Jury, all responses are provided in accordance with Section 933.05 of the California Penal Code (PC). Pursuant to PC Section 933 (c) and (d), responses are provided on behalf of the Board of Supervisors.

Sincerely,

Laura Capps, Chair
Santa Barbara County Board of Supervisors

cc: Santa Barbara County Board of Supervisors

Santa Barbara County Board of Supervisors
Response to the Santa Barbara County Grand Jury 2024-25 Report
“Cannabis Taxation and Expenditures”

The County Executive Office Cannabis Regulation and Licensing Division (CEO’s Office) acknowledges the investigation conducted by the Santa Barbara County Grand Jury in its 2024-2025 report titled “Cannabis Taxation and Expenditures.” The CEO functions as the lead coordinator for the administration of Chapter 50 – Licensing of Cannabis Operations (Chapter 50). Chapter 50 relies on several Departments and Districts to administer the code including the Agricultural Commissioner’s Office, County Executive Office, County Fire, County Health, Planning and Development, Sheriff, Community Services, and the Carpinteria-Summerland Fire District. The Treasurer- Tax Collector (TTC) administers and enforces Chapter 50-A – Tax on Cannabis Operations. CEO staff along with their respective colleagues are committed to the maintenance of a well-regulated cannabis industry achieved through the licensing, taxation and budgeting process. The CEO’s Office appreciates the findings and recommendations provided by the Grand Jury and is dedicated to right-sizing cannabis expenditures, ensuring accurate and prompt quarterly tax payments, and running an efficient and centralized program.

As indicated in the Grand Jury report, “the Board of Supervisors initiated significant changes to the County’s Cannabis Program (prior to report issuance on 6.20.25), many of which are consistent with the Findings and Recommendations in the report.” This document details the responses to each finding and recommendation made by the Grand Jury. These responses include acknowledgements of areas needing improvement, explanations of current practices, and outlines processes already in place or planned for implementation.

The CEO’s Office recognizes the impact of transparency, and this response reflects the County’s ongoing efforts to reduce expenses and maintain the solvency of the Cannabis Program. Through continued collaboration with our County partners and an ongoing commitment to fiscal responsibility, the CEO’s Office aims to budget conservatively and simplify the cannabis business license process.

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.

The Board of Supervisors agrees.

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 downward trend in cannabis tax revenues is attributed to several factors, including

market oversupply; price collapse; infrastructure, licensing and regulatory costs; and operators going out of business, downsizing, and/or consolidating. As referenced in the above preamble, the Board recently directed several changes to right-size cannabis tax revenue spending. It is important to note that there are two categories of cannabis program expenses: 1) full-cost recovery licensing fees, associated with Cannabis Program administration and the issuance of cannabis business licenses, which pay for the labor and overhead associated with these tasks, and 2) Board-directed ongoing and one-time cannabis tax revenue allocations provided to cannabis and non-cannabis programs, projects, and staff.

Surplus reserves from higher revenue years previously helped fund various County initiatives unrelated to the Cannabis Program. However, in more recent years the decrease in annual cannabis tax revenues and a consequently dwindling reserve necessitated a reduction in ongoing and one-time expenses. See Attachment D for “Historical Cannabis Revenue” ongoing and one-time use allocations (2018-2025).

In fiscal year 2021-22, the ongoing and one-time use total allocations exceeded actual revenue for the first time since program inception. Since that time, the cannabis tax revenue fund balance has covered the cannabis program expense shortfall for ongoing and one-time cannabis revenue uses. The decrease in cannabis tax revenue has since leveled off and afforded opportunities to right-size program management and expenditures.

The County of Santa Barbara’s Cannabis Program has generated approximately \$55 million since program inception in 2018, averaging \$9.2 million annually over a six-year period. Original revenue projections were between \$5 to \$25 million annually. Fiscal years 2019-20 and 2020-21 were the highest grossing years, generating \$12 million and \$15 million respectively. Revenue has declined annually, beginning in fiscal year 2021-22.

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.

This recommendation has been implemented.

Operator-paid cannabis business licensing fees pay for the majority of 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 a minimum of \$1.2 million - enough to cover the budget shortfall and balance the program budget with no planned draw from reserves. Board

direction included review of all ongoing uses, with specific emphasis on enforcement costs and identifying potential efficiencies between the County Health and Behavioral Wellness (BWell) departments pertaining to cannabis education.

Staff returned on June 3, 2025 with proposed reductions for the FY 2025-26 budget, and the Board approved all staff recommendations including District Attorney and Sheriff staffing reductions; additionally, reductions were made to the BWell treatment providers' perinatal cannabis use prevention education program. The June 17, 2025 adopted program budget resulted in reducing approximately \$1.28 million in ongoing cannabis program expenditures and is expected to close the gap between fiscal year 2025-26 ongoing revenue and expenditures, ensuring a balanced budget related to cannabis tax revenue and reserves. When "balanced budget" is discussed in this Grand Jury response, it means balanced within the Cannabis Program. The Board plans to evaluate and adjust program budgets annually depending on tax revenue and other considerations. See Attachment C for the "FY 2025-26 Adopted Cannabis Tax Revenue Budget."

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.

The Board of Supervisors disagrees.

The cannabis tax revenue allocated towards deferred maintenance was \$900,900 in FY 2020-21, with an additional \$1,518,500 added in FY 2021-22, for a total of \$2,419,400. In FY 2023-24, it was reduced to \$1,572,800, a 35% reduction, and remains at this amount today.

While developing the FY 2023-24 budget, the Board recognized the dip in cannabis revenue was unlikely to quickly rebound and acted proactively to bring projected ongoing costs in line with projected ongoing revenues (estimated to be \$7,500,000 in that fiscal year) by replacing \$3,010,800 of ongoing costs in programs and projects unrelated to administration of the Cannabis Program with other discretionary general revenues. The reduction of the allocation to deferred maintenance was part of this funding swap.

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.

This recommendation 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 as well as other on-going expenditures, 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. The Board of Supervisors is committed to a balanced budget and plans to revisit and adjust projects and programs funded by cannabis tax revenue allocations on an ongoing basis in accordance with annual County Budget development.

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.

The Board of Supervisors partially disagrees.

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.

During the fiscal year 2024-25 Q2 Cannabis Update in March 2025, CEO staff updated the Board regarding the upcoming shortfall, which was exacerbated because the \$6.1 million budgeted tax revenue was reduced to a projected \$5.4 million. This early awareness alerted the Board to agendize the topic for further discussion during the April 2025 Budget Workshops, to minimize the projected burden on County taxpayers. No cannabis expenditures are funded by monies received outside of cannabis tax and cannabis licensing fees.

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.

This recommendation has been implemented.

During the Fiscal Year 2025-26 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, thereby 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 to this action, CEO staff conducted a Cannabis Licensing and Regulation fee study in fiscal year 2024-25. As part of the fee study, the CEO's Office reduced the licensing team by 1.0 full-time equivalent (FTE) to account for program contraction. New fees have gone into effect as of July 1, 2025. The fees were adjusted to reflect updated salaries, benefits, overhead costs, and the average amount of time spent on processing license applications. Per the Board's direction, licensing fees are calculated to achieve full-cost recovery for participating departmental staff. CEO staff will conduct annual analysis to track labor hours and respective payments. Additionally, staff plans to conduct subsequent fee studies on a three-year cycle to update license fees as needed to ensure full program cost recovery.

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.

The Board of Supervisors partially disagrees.

Presently, the County's budgeting, tracking, and reporting of cannabis related revenue and expenses are all managed in a centralized financial system accessible by applicable County staff in the Treasurer-Tax Collector's office and in the CEO's Office. Staff utilize program codes to track activities related to administration, licensing, and enforcement among other activities. Reports can be run on demand to provide timely, comprehensive, and detailed information upon request.

Cannabis program management documents are housed in Accela, the County's online tracking software. Accela stores the application, inspection dates, and license approvals. Compliance violations are outliers and are not uploaded to Accela. Violations are decentralized because multiple departments conduct compliance activities to administer Chapter 50. Cannabis business license issuance is dependent upon the approval of eight Departments and Districts including the Agricultural Commissioner's Office, CEO's Office, Community Services (Sustainability Division), County Fire, County Health (Environmental Health Services Division), Planning and Development, Sheriff's Office, the Treasurer-Tax Collector's Office, and the Carpinteria-Summerland Fire District. Cannabis licensing activities are often one of many responsibilities managed by participating division and departmental staff. Individual departments manage violations on servers unique to their departments. Each department has particular systems and protocols in place to manage data according to their processes and standard operating procedures. CEO staff engages in cross-departmental coordination efforts to assess and prioritize compliance violations and areas of concern. The County will continue tracking budget

information through the internal financial database and licensing information through Accela.

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.

This recommendation 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 administration of the licensing program, including cannabis business license applications, inspection dates, and license approvals is accessible online through Accela. There would be significant cost to integrating both the financial and administrative systems. Although the recommendation will not be implemented, the CEO Office is confident that the existing systems provide timely, accurate information on demand.

In addition, CEO staff tasked with coordinating cross-departmental cannabis business license activities are prioritizing process improvements to streamline budgeting, licensing and compliance efforts. These efforts are geared towards maintaining compliance while simplifying processes, reducing redundancies, and issuing timely business licenses. Staff is committed to transparent, clear communication with internal and external stakeholders to achieve these objectives.

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.

The Board of Supervisors partially disagrees.

Finding 5 was an accurate statement up until fiscal year 2025-26. Historically, the Sheriff Cannabis Enforcement Team budget ranged between \$2 million and \$3 million from fiscal year 2018-19 through fiscal year 2024-25 and remains the largest category of program expense. Originally, ongoing 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. During the June Budget Hearings, the Sheriff Cannabis Enforcement Team funding was reallocated to other

priorities reflecting the changing landscape of reduced illicit activity and the Board's desire to fund more pressing areas of concern.

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.

This recommendation 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. This review of cannabis tax revenue enforcement uses was timely considering program contraction and the declining enforcement activities from large-scale raids to fewer, slower, and longer investigations pertaining to alleged diversion and illegal resale of legally purchased products. The reduction in cannabis enforcement activities necessitated a re-evaluation of Sheriff enforcement program costs. The Board adopted a proposal that reduced the Cannabis Enforcement Team budget dedicated to the illicit cannabis 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 countywide warrant backlog funded with one-time monies. See Attachment C for the "FY 2025-26 Adopted Cannabis Tax Revenue Budget."

The Board will continue to annually review ongoing and one-time expenses in the budget development cycle.