



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Submitted on:
(COB Stamp)

Department Name: County Executive Office
Department No.: 012
Agenda Date: June 3, 2025

Placement: Departmental Agenda
Estimated Time: 1 hour
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s): Mona Miyasato, County Executive Officer
Contact Info: Brittany Odermann, Deputy CEO
SUBJECT: Cannabis Tax Revenue and Uses Budget Direction

DocuSigned by:
Mona Miyasato
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County Counsel Concurrence

As to form: Yes

Other Concurrence:

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

That the Board of Supervisors:

- a) Direct staff to adjust the Recommended fiscal year 2025-26 budget to reduce cannabis revenue on-going uses in accordance with Attachment A, Preliminary and Proposed On-going Cannabis Revenue Uses;
- b) Provide other direction as appropriate; and
- c) Find that the proposed actions are administrative activities of the County, which will not result in direct or indirect changes to the environment and therefore are not a "project" as defined for the purposes of the California Environmental Quality Act (CEQA) under State CEQA Guidelines Section 15378(b)(5).

Summary Text:

The purpose of this agenda item is to recommend a minimum of \$1.2 million in reductions to ongoing, County programs funded by cannabis tax revenue for the upcoming fiscal year 2025-26, given the trending revenue decline. This action will balance cannabis program expenditures which currently exceed ongoing cannabis tax revenue.

Discussion:

At the April FY 2025-26 budget workshops staff presented the cannabis tax revenue budget which includes funding for ongoing and one-time uses.

Table 1. FY 2025-26 Preliminary Cannabis Tax Revenue and Ongoing Expenditures

FY 2025-26 Preliminary Tax Revenue	Amount
	\$5.53M
Preliminary Ongoing Cannabis Revenue Uses	Amount
18% Transfer to Deferred Maintenance fund balance (Board Policy)	(\$1.57M)
Enforcement costs - Counsel (0.6 FTE)	(\$170.4K)
Enforcement costs - District Attorney (2.65 FTE)	(\$738.1K)
Enforcement costs - Sheriff (5 FTE & program costs incl. building lease)	(\$1.98M)
Enforcement costs - Ag Commissioner (0.15 FTE)	(\$50K)
Enforcement costs - P&D (2.65 FTE)	(\$356.3K)
Health Educator - Public Health	(\$100K)
Cannabis Education - BWell	(\$160K)
Cannabis Program Admin - CEO (1.00 FTE & program costs incl. Accela)	(\$322K)
Cannabis Program Admin - TTC (2.00 FTE & program costs)	(\$498K)
HdL Auditing Contract - TTC	(\$90K)
Board-approved Deputy Counsel	(\$312K)
Appeals Costs - P&D	(\$370K)
Total	(\$6.72M)
Budget Gap between FY 2025-26 Ongoing Revenue and Uses	(\$1.19M)

The Board directed the County Executive Office to return with a recommendation to reduce ongoing expenditures funded by cannabis revenue instead of relying on the fund balance to mitigate it, thereby addressing the estimated \$1.2 million gap. Board direction included review of all ongoing uses with specific emphasis on enforcement costs and identify potential efficiencies between County Health and BWell Departments in cannabis education. Staff met with all affected departments to discuss potential cuts and the associated impacts.

As Table 1 demonstrates, the largest category of expense is enforcement. Originally, ongoing uses of cannabis tax revenue were focused on enforcement activities against the illegal market to ensure the new, regulated program could prosper. Funding was also allocated to activities related to education and administration of the program that could not easily be funded by permit or license fees. The Board also funded ongoing positions and uses that were a priority and for which other revenue sources were not available. Costs related to land use entitlements and compliance with those activities were to be fully captured through permit fees; costs related to business license operations were to be fully captured through business license fees.

To right-size program expenses, a prudent review of cannabis tax revenue enforcement uses, licensing fee full cost recovery efficacy and allocated FTEs is timely. Cost savings can be achieved through staff cuts; the reduced number of cannabis operators necessitates proportional resource

Board of Supervisors

June 3, 2025

Page 3 of 9

reduction in County program expenditures. There has been sizeable program shrinkage and program costs have exceeded revenue for three consecutive years (2022-2025). Enforcement activities have the largest allocation of resources. Since fiscal year 2022-23, the reported activity has declined and shifted from large scale raids of illegal grows to fewer, slower and longer investigations pertaining to alleged diversion and illegal resale of legally purchased products.

Enforcement costs

These expenditures were originally intended to assist in enforcing against illegal, unregulated cannabis operations in the County. Staff developed a staffing plan and budget to respond to unlicensed cannabis operations that included several departments. Early enforcement actions focused on illegal cultivation without state licenses or historic, unlicensed cultivation; the high activity necessitated cross-departmental cannabis enforcement team bimonthly meetings to coordinate efforts and large amounts of illegal product were seized. The two departments with the largest share of cannabis tax revenue for enforcement activities are the Sheriff's Office and the District Attorney's Office. The Sheriff's Office continues to perform illegal activity investigations and coordinates with the District Attorney's Office on prosecution of illegal cannabis activity; however the cases have transitioned from predominantly large illegal cultivation sites to cases that involve alleged diversion of legal product through resale outside of regulated spaces and transport across state lines. The shift in enforcement activities and decrease in cannabis tax revenue warrants a reduction in program expenditures. Historic enforcement information provided from District Attorney and Sheriff's Offices are included as Attachments C and D, respectively.

Proposed changes to Enforcement Team

- **District Attorney** - The District Attorney's Office is funded \$738,100 in the preliminary 2025-26 budget for 2.65 FTE positions. The positions include Deputy District Attorney (1.15 FTE), Investigator (1 FTE), and Legal Office Professional (0.5 FTE). These expenditures were to be used to investigate and prosecute cannabis-related civil, criminal, and environmental cases in the illegal market. CEO staff requested a target reduction from the DA's Office between \$150-\$200k. DA Office staff proposed a reduction in positions by 1.2 FTE resulting in a \$310,100 budget decrease. These reductions will be offset by some unanticipated and higher-than-anticipated fraud enforcement funds and should not significantly impact work efforts by the District Attorney's office for cannabis enforcement. *Total recommended reduction: \$310,000 (1.2 FTE). Revised budget: \$428,000, 1.45 FTE*
- **Sheriff** - The Sheriff's Office (SBSO) has a preliminary 2025-26 budget of \$1.98 million for 5 FTEs. The positions include Deputy, Special Duty (4 FTEs) and Sergeant (1 FTE). This team performs daily illegal activity investigative work. Each detective carries an individual caseload, and the team performs enforcement actions together. CEO staff requested a target reduction from the Sheriff's Office between \$400-\$500k. The Sheriff's Office proposed a reduction of one FTE (\$242k) (this is an addition to the reduction of 1 FTE in the licensing program which does not rely on cannabis revenue), services & supplies (\$10k), and overtime costs (\$220k) totaling \$472,000. To ensure there are ongoing and actual program reductions to the cannabis tax revenue program, CEO staff is requiring documentation of overtime use in the program, and the Sheriff has agreed to strictly enforce overtime processes to keep within the budget. *Total recommended reduction: \$472,000 (1 FTE); Revised budget: \$1,504,000, 4.0 FTE*

Board of Supervisors

June 3, 2025

Page 4 of 9

The other three departments involved in enforcement are County Counsel, Agricultural Commissioner Office, and Planning & Development. There are no proposed changes to enforcement costs for County Counsel or the Agricultural Commissioner Office. These two departments have already reduced their FTEs over time as the program contracted and fewer resources were needed. County Counsel leverages the 0.6 FTE to provide legal support for enforcement cases within the licensing framework as well as other litigation involving cannabis. A proposed reduction to this line item would result in County Counsel’s Office holding one funded position vacant, which recently became open and is in the recruitment process, until additional funding was available.

The Agricultural Commissioner’s allocation includes funding for 0.15 FTE, which helps support a position that is partially dedicated to cannabis-related pesticide and weights and measures enforcement directly tied to the cannabis program. The Planning & Development Department receives funding for zoning enforcement activities. The 2.65 FTEs are dedicated to code compliance and enforcement including code compliance with the cannabis odor abatement requirements recently adopted by the Board. Staff recommends no change to the budget for these three departments.

The following chart identifies the original staffing approved and budgeted for enforcement to respond to unlicensed cannabis operations in the County compared to current (FY 2024-25) and proposed (2025-26) staffing.

Department/Position	FY 18-19 FTEs	Current FTEs	Proposed FTEs	Activity
County Counsel Deputy County Counsel	1.0	0.6	0.6	Legal support for enforcement
District Attorney Deputy District Attorney Investigator	1.0	2.15	1.25	Prosecute illegal activities Investigation for criminal or civil prosecution
District Attorney Legal Office Professional	0.5	0.5	0.2	Prosecute illegal activities
Sheriff Sheriff's Sergeant	0.5	1.0	1.0	Illegal activity investigation supervision
Sheriff Sheriff's Deputy	3.0	4.0	3.0	Illegal activity investigations
Ag/W&M Ag Bio/W&M Inspector	1.0	0.15	0.15	Pesticide enforcement, weights & measure inspections and cultivation license site inspections
Planning Supervising Planner	0.5	0.5	0.5	Zoning enforcement
Planning Planner/Admin	2.0	2.15	2.15	Zoning enforcement and support
Total	9.5	11.05	8.85	

Cannabis Education

The cannabis education programs provide cannabis use prevention education to perinatal and youth populations. County Health leverages their work in tobacco use prevention and best practices to

Board of Supervisors

June 3, 2025

Page 5 of 9

inform youth anti-smoking/vaping campaigns. BWell contracts work to community-based organizations to provide education to prevent and reduce cannabis use in adolescents. In coordination with County Health and BWell, staff identified potential overlap between County Health clinics' perinatal education and BWell perinatal education with treatment providers. There is potential for future consolidation of education programs between the two departments and staff will continue to explore those options although it is unlikely there would be reduction in cost to maintain the existing level of educational services throughout the county.

Proposed Changes to Cannabis Education

- **Behavioral Wellness (BWell)** - Reduce BWell allocation by \$41,000 for perinatal education with treatment providers for perinatal cannabis use prevention education. BWell will continue to provide materials to treatment providers, however quarterly workshops provided by BWell staff for perinatal education will be eliminated. *Total recommended reduction: \$41,000; Revised budget: \$119,000*

Staff recommend that County Health continue the perinatal prevention work, and coordination of cannabis education, with a focus on research updates and sharing of best practices for providers working with youth and perinatal population, among other cannabis health programs, maintaining the \$100k budget.

Program Administration

Cannabis Program Administration consists of two departments, the County Executive Office and the Treasurer-Tax Collector's Office. The CEO's Office administers and coordinates the cannabis business licensing process for all regulated cannabis activities. At the height of the program, with nearly 125 business licenses in process, the CEO's Office had 3 FTEs, one Cannabis Program Manager charged with overseeing the inter-departmental coordination and policy directives of the program; and two business license specialists that supported all day-to-day efforts of processing license applications and compliance efforts. Today, with approximately a third of that number of licenses, the CEOs office already reduced the licensing program by 1 FTE and is proposing to reduce its share of cannabis tax revenue by \$76,800.

The Treasurer-Tax Collector's Office has 2 FTEs responsible for cannabis tax reporting, collection, and compliance. Early in the program TTC had limited resources available for cannabis tax administration and the program struggled with discrepancies in reporting and payment from various operators. Current staff assigned continuously work with operators to ensure accurate and timely tax payment.

Proposed Changes to Program Administration

- **County Executive Office (CEO)** - Reduce County Executive Office allocation by \$76,800 and adjust cannabis licensing revenues to cover a portion of the Cannabis Program Manager position. This is in addition to the reduction completed in the third quarter, fiscal year 2024-25 to reduce 1 FTE in the cannabis licensing program. *Total recommended reduction: \$76,800; Revised budget - \$245,200*
- **Treasurer-Tax Collector (TTC) and audit contract** – TTC has a preliminary budget of \$588k that includes 2 FTE and a contract for national pricing data (\$18k). TTC also administers the contract for cannabis independent auditing services (\$90k). TTC recommended reducing expenditures by eliminating the contracts for independent audits and national pricing data

Board of Supervisors

June 3, 2025

Page 6 of 9

resulting in a \$108,000 decrease. TTC staff will continue reviewing quarterly reporting and performing analytics, but external auditing work will pause. *Total recommended reduction: \$108,000 (0 FTE); revised budget - \$480,400, 2 FTE*

Appeals Costs

Every cannabis operation in the County requires a land use entitlement (permit) that is processed through the Planning & Development Department (P&D). Cannabis permits are discretionary and therefore subject to appeal. Given the controversial nature of cannabis, a large majority of cannabis projects were appealed to the Planning Commission and Board. There is significant staff time associated with appeals that is not recouped from applicant permit fees. As such, the Board approved an on-going allocation of cannabis tax revenue in the amount of \$370k to cover this expense to the department. In the last two years appeals have reduced to just a couple of outstanding cases.

Proposed Changes to Appeals Costs

- **Planning & Development** - Eliminate ongoing appeals costs allocation to Planning & Development resulting in a \$370,000 decrease. Any balance from the current fiscal year (2024-25) allocation will be set aside as a one-time use for future cannabis appeals costs. *Total recommended reduction: \$370,000; revised budget - \$0*

The CEO Office recommendation for reductions in ongoing cannabis revenue uses as described in detail above is summarized in Attachment A and in Table 2. The County Executive Office recommends the following revisions for a proposed total reduction of \$1.39 million.

Table 2. FY 2025-26 Recommended Reductions to Cannabis Tax Revenue Ongoing Expenditures

Department	Position/Program	FTE Reduction	Cost Reduction	Impact
District Attorney	Investigator	0.25	(310,100)	DA Office will use existing available grant funding to offset the reductions. Staff will spend less time on cannabis illegal activity accordingly.
	Deputy DA	0.65		
	LOP	0.3		
Sheriff	Deputy, Special Duty	1	(472,000)	Reduction to size of enforcement team and overtime budget, total investigative caseload may decrease.
Bwell	Cannabis Education	N/A	(41,000)	Elimination of contract with treatment providers for peri-natal education. Will leverage County Health programs to provide services and disseminate information.
CEO	Cannabis Program Manager	0.5	(76,800)	None. Balance of cost for position shifted to licensing fees.
TTC	Cannabis Program Admin	N/A	(18,000)	Staff will no longer have access to national/state pricing data points.
TTC	HdL Auditing Contract	N/A	(90,000)	External, independent audits will pause. TTC staff will continue review and analytics of cannabis tax reports and payments.
P&D	Cannabis Permit Appeals	N/A	(370,000)	None. Budget balanced with additional permit fee revenue.
Total Recommended Reduction			(1,377,900)	

Other Options

Other options the Board could consider to close the estimated \$1.2 million budget gap include:

- Direct staff to reduce the 18% Transfer to Deferred Maintenance fund balance currently budgeted at \$1.57 million to \$370k. This would reduce the funding Public Works, General Services, and County Parks would receive to address the deferred maintenance backlog.
- Direct staff to use one-time cannabis revenue fund balance, effectively depleting the fund balance and potentially lowering the cannabis revenue prudent reserve below the goal of 25% of projected revenue.

Background:

The County of Santa Barbara’s Cannabis Program has generated approximately \$59 million since program inception in 2018, averaging \$8.4 million annually over a 6-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 year to year as of fiscal year 2021-22.

Since the county began collecting cannabis tax revenue in fiscal year 2018-19 the Board approved ongoing cannabis revenue uses at the request of several departments engaged in the early stages of the licensing process. In 2018, staff received requests and affidavits for licenses from 124 operations representing 99 individuals, some on multiple parcels. To keep up with the high volume of applicants, 12.5 new full-time equivalents (FTEs) in various departments were proposed for FY 2018-19 at a fully benefited cost of \$2.37 million, to be paid by cannabis licensing fees. Additionally, 9.5 FTEs, at a cost of \$1.9 million for enforcement activities, was approved and funded by cannabis tax revenue.

Since that time, the Board has allocated additional monies to hire more cannabis-related FTEs and has expanded the list of cannabis revenue recipients.

Table 3. Cannabis Tax Revenue by Fiscal Year

FISCAL YEAR	TAX REVENUE
FY 2018-19	\$ 6,936,762
FY 2019-20	\$ 12,320,388
FY 2020-21	\$ 15,655,023
FY 2021-22	\$ 8,688,239
FY 2022-23	\$ 5,765,319
FY 2023-24	\$ 5,818,058
FY 2024-25	\$ 3,678,424 (YTD)
	\$ 58,862,213

In fiscal year 2022-23 revenue declined significantly, and the total annual revenue no longer covered the cost of the ongoing uses. Since that time, the cannabis tax revenue fund balance has covered the cannabis program expense shortfall for ongoing cannabis revenue uses. In fiscal year 2022-23, sensing the volatility of cannabis tax revenue, the Board approved a policy that additional cannabis tax revenue would be considered one-time. A list of all expenditures and earmarks of one-time cannabis revenue is attached as Attachment B.

Due to various market factors and regulatory hurdles, the program has diminished in size and scope since its peak years. Today there are 46 cannabis operators. The cannabis licensing program now (as of FY 2024-25) consists of 4 FTEs at a cost of approximately \$940k with a goal of full-cost recovery from licensing fees. The enforcement program currently has 11.05 FTEs allocated to enforcement activities at a cost of approximately \$3 million paid with cannabis tax revenues.

Fiscal Analysis:

The recommended adjustments to the preliminary ongoing cannabis revenue uses will result in reducing approximately \$1.39 million in cannabis tax revenue expenditures and is expected to close the gap between fiscal year 2025-26 ongoing revenue and uses, shown above in Table 2.

Attachments:

Attachment A – Preliminary and Proposed On-going Cannabis Revenue Uses

Attachment B – Historical Cannabis Revenue Uses

Attachment C – District Attorney’s Enforcement Prosecution Program Quarterly Update

Attachment D – Sheriff’s Enforcement Program 3-year Summary

Board of Supervisors

June 3, 2025

Page 9 of 9

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