



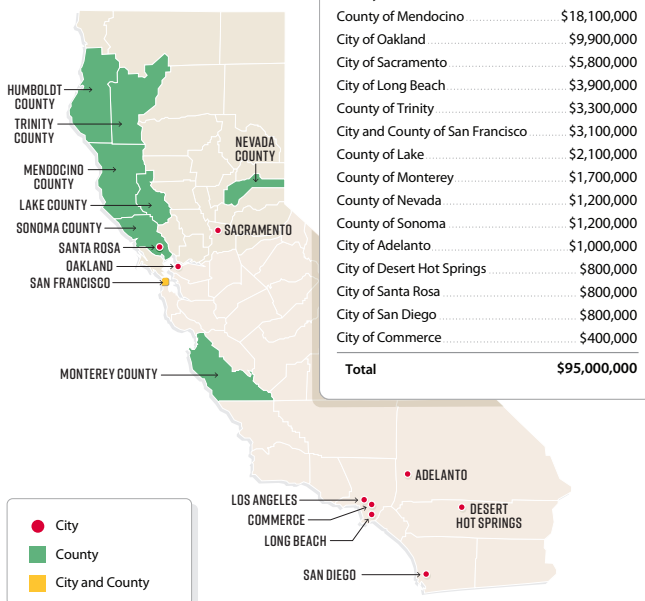
Cannabis Business Licensing

The State's Grant Funding Assisted Businesses, but a Lack of Preparedness Limited the Grant's Impact

Background

To legally operate in California, cannabis businesses must obtain state licenses, which require the completion of certain key steps. To encourage cannabis businesses to enter the newly regulated market, the State initially issued them provisional licenses. However, state law requires most types of cannabis businesses to obtain annual state licenses by January 1, 2026, at which date provisional licenses for those businesses will no longer be effective. The Budget Act of 2021 (Budget Act) appropriated \$100 million for the Local Jurisdiction Assistance Grant Program (Grant Program), of which \$95 million was made available to assist 17 local jurisdictions in helping cannabis businesses transition from provisional to annual state licenses. The Budget Act further requires the California State Auditor to annually conduct a performance audit of local jurisdictions receiving Grant Program funding, concluding on January 1, 2026. We published two previous reports on cannabis business licensing: 2023-048 and 2024-048.

Seventeen Local Jurisdictions Were Eligible to Receive Funding From the Grant Program



Key Findings

- The Department of Cannabis Control (DCC) and the 17 local jurisdictions have made substantial progress in transitioning cannabis businesses to annual state licenses. The number of provisional licenses in those jurisdictions decreased from more than 4,600 in January 2023 to fewer than 300 in June 2025.
 - » Either local jurisdictions did not spend or DCC disallowed at least \$35.7 million of the nearly \$100 million total Grant Program funding.
 - » The total amount of unspent Grant Program funds may change if DCC determines that any more local jurisdictions spent funds on unallowable uses.
- Of the three local jurisdictions we reviewed, we are concerned with how two spent some Grant Program funds.
 - » DCC approved Humboldt County's use of Grant Program funds to provide subgrants to cannabis businesses that already held annual state licenses.
 - » Oakland made a \$2,000 purchase of computer equipment that did not comply with its grant agreement with DCC.
- It remains unclear how much of cannabis businesses' progress in transitioning to state licenses is directly attributable to Grant Program funding.
 - » DCC's insufficient staffing and inexperience with managing a large grant may have contributed to delays in local jurisdictions' ability to effectively use Grant Program funding.
 - » The issues we identified in this and previous reports indicate that DCC may have benefited from clearer guidance on government grant administration at the outset of the Grant Program.

Key Recommendations

- To increase the ability of state agencies that may lack the existing infrastructure to effectively administer legislative grant programs, the Legislature should consider directing the Department of General Services or another state agency with the appropriate expertise to create and make available statewide guidance for grant administration.
- To provide transparency into the effectiveness of the Grant Program and accountability for the use of public funds, DCC should publicly report on its website the final amounts of Grant Program funding it disbursed to each local jurisdiction, the amounts each jurisdiction used, the amounts DCC determined jurisdictions may have used in unallowable ways and that are subject to recapture, and the amounts DCC will return to the General Fund.
- To reduce the risk of fraud, waste, and abuse of future grant program funds, DCC should, by June 2026, develop guidance that grant recipients can use when making grant awards to subgrantees, including direction about limiting advance payments to the minimum amounts subgrantees need and timing those payments to the subgrantees' actual, immediate cash requirements.