

SAN LUIS OBISPO COUNTY GRAND JURY REPORT

Growing Pains: The Cannabis Industry in San Luis Obispo County

TABLE OF CONTENTS

SUMMARY	1
BACKGROUND	1
Cannabis Legislation in California	1
Federal Cannabis Laws	2
REASON FOR STUDY/ORIGIN.....	3
METHOD OF STUDY	3
INVESTIGATION AND ANALYSIS	4
Cannabis licensing and monitoring in San Luis Obispo County	4
Impact to General Fund	10
CONCLUSIONS	14
FINDINGS	16
RECOMMENDATIONS.....	17
RESPONSES.....	17
LIST OF IMAGES	
Figure 1 – Legal Cannabis Fees Estimated Budget FY 24-25	5
Figure 2 – Sheriff’s Office Cannabis Fees	7
Figure 3 – Sheriff’s Office New Cannabis Fees – Testing Facilities	7
Figure 4 – ACTTC & Planning and Building Cannabis Fees	8
Figure 5 – Planning and Building Cannabis Fees.....	8
Figure 6 – Cannabis License Fees by County- Cultivation	10
Figure 7 – Legal Cannabis Program, Excluding Cannabis Tax	11
GLOSSARY	18
BIBLIOGRAPHY	18

SUMMARY

In this report the San Luis Obispo County Grand Jury (SLOCGJ) examined how the cannabis industry has developed in San Luis Obispo County (the County). Specifically, this inquiry is focused on the unincorporated area of the County where the Board of Supervisors (BOS) has sole jurisdiction. We have obtained information from municipalities within the County and from neighboring counties to use for comparison purposes where appropriate. An examination of ordinances for each local jurisdiction is beyond the scope of this investigation.

The SLOCGJ does not condone the use of illegal cannabis nor does it endorse the legal use of cannabis. The intent of this investigation and report is to examine issues relating to the County's regulation of cannabis licensing and its impact on the General Fund.

BACKGROUND

Cannabis Legislation in California

In November 2016 California voters approved Proposition 64 (Prop 64) which legalized cannabis for cultivation and recreational use. The passage of this proposition was met with both anticipation and trepidation. Some local jurisdictions saw an opportunity for increased tax revenue. Potential operators saw a means to legitimize their businesses. Law enforcement saw a possible increase in criminal activity. Some community activists saw it as a means to eliminate illegal cannabis activity. Others interpreted it as the demise of societal norms. Some consumers viewed it as a means to legally access a product that they were already using. When using a wide-angle lens, all of these things have and have not occurred. The legal cannabis industry in California has had its successes, but it has had its challenges as well. In response, the State has enacted legislation and made modifications to its compliance program. The cannabis industry and regulations have evolved over the years, but there have been plenty of "growing pains."

Several categories of cannabis businesses are legally allowed in California. Broadly, these are cultivation, manufacturing and processing, testing, transportation, and retail sales. The State has established compliance guidelines for each type of operation for State-licensed businesses. A

local jurisdiction may enact stricter requirements than the State, but they may not reduce them. Some jurisdictions have prohibited all cannabis businesses while others have allowed one or more of the various operations. All state-licensed cannabis operators must undergo a background check and submit their operations to inspections on a regular basis to ensure compliance with state requirements. The cost of compliance monitoring is funded by the licensing fees charged to the operators by the State. These fees are paid upon initial application and annual renewal of licenses. The State also generates revenue through the collection of sales and excise taxes.

Proposition 64 and subsequent legislation largely deferred to local jurisdictions whether to, and how to, implement cannabis regulations. Cities and counties were given latitude to create ordinances to control cannabis in their own jurisdictions. Often, local jurisdictions require licensing and compliance requirements that parallel the State requirements. Local jurisdictions set their own fees for licensing and permitting in addition to those charged by the State. While it is necessary to maintain this local control, it has contributed to the complexity and cost of the licensing process and a duplication of some requirements. One example is background checks that are required by the State in addition to those required by a local jurisdiction.

Federal Cannabis Laws

Federal Law classifies controlled substances into five schedules (I through V) with Schedule I being the most restrictive. Schedule I controlled substances, as defined by the Federal Government, are considered to have the highest potential for abuse with no recognized medical use in the United States. Schedule V substances are identified as having the least potential for abuse. The federal government classifies cannabis as a Schedule I controlled substance. While many states have “legalized” cannabis for personal or recreational use, possession and use remains illegal under federal law.

The US Department of Justice (DOJ) does not prosecute most cannabis users or businesses that follow state and local cannabis laws as long as they do not conflict with other federal requirements. The difference in state and federal law regarding cannabis does create issues for

the cannabis industry, including obtaining services from the financial sector. Most banks rely on federal regulatory agencies for oversight and access to funding / payment systems. Financial institutions may deny banking services to cannabis businesses because of potential criminal and civil liability under federal law.

REASON FOR STUDY/ORIGIN

“Adult” or “recreational” use of cannabis was legalized in California in 2016, and cannabis licensing became effective on January 1, 2018. Since that time a variety of cannabis businesses have been licensed and have commenced operation in the County. These cannabis businesses vary from retail storefronts in some incorporated cities to limited cultivation and mobile delivery in unincorporated areas of the County. Another area of interest to the SLOCGJ was determining the impact of the cannabis industry on the County’s General Fund.

The SLOCGJ believes this investigation will heighten public awareness as to potential benefits or burdens to taxpayers associated with this new industry.

METHOD OF STUDY

To conduct this investigation, a variety of sources were utilized to acquire information. These included a review of the SLO County Budget, County ordinances, documents from the Planning and Building Department, and documents from the Sheriff’s Office. Interviews were conducted with individuals or representatives of the following:

- California Department of Cannabis Control (DCC),
- San Luis Obispo County Board of Supervisors (BOS),
- City of Grover Beach,
- Cannabis Business Consultant, and
- San Luis Obispo Sheriff’s Office.

The SLOCGJ also reviewed websites from various County departments and neighboring counties. Fees charged by the State and nearby counties were also reviewed to determine how they have met the financial challenge of regulating the cannabis industry.

INVESTIGATION AND ANALYSIS

Cannabis licensing and monitoring in San Luis Obispo County

The BOS has reviewed and continues to review and revise ordinances regulating legal cannabis in the County. This was done with input from County staff, outside consultants, and the public. In September 2016, the BOS adopted an urgency ordinance to initially address the passage of Prop 64. This ordinance allowed for adult recreational use of cannabis in the County. Indoor personal cultivation of less than six cannabis plants was also allowed under this ordinance. However, this ordinance prohibited all commercial cultivation of cannabis in the unincorporated areas of the County. At that time there were more than 400 cannabis cultivators in the County operating under Proposition 215 (Medicinal Use) provision.¹ These cultivators were allowed to continue under the condition they registered with the County prior to November 2016. Cultivators who registered would be allowed to continue operation until a permanent ordinance was adopted by the BOS. This temporary ordinance was extended several times until 2021.¹ To assist in the development of a permanent ordinance, the BOS commissioned the consulting firm MGT to conduct an analysis of the County's Cannabis Program. This report was presented to the BOS in August 2022. Further analysis was provided from Planning and Building staff in September 2023.²

County ordinances currently only allow for cultivation and retail sales via mobile delivery. Businesses are restricted to only operating one of the permitted activities. Retail sales are currently prohibited in the unincorporated areas of the County. Cultivators in the unincorporated areas must transport their products outside the County for processing. To be in compliance, operators must obtain a local license in addition to the State license prior to commencing operations. Additionally, cultivators must first obtain property, obtain the required land-use permits, submit and receive approval of an Environmental Impact Report, and complete all

¹ San Luis Obispo County, Administrative Office Featured News, August 31, 2021

² Planning and Building Staff Report to the BOS, September 23, 2023

requirements of any other new business in the County. An additional fee for the Cannabis Tax Compliance is also imposed.

Fees are imposed from three County departments and offices. The fees are paid to the Auditor-Controller-Treasurer Tax Collector (ACTTC), the Planning and Building Department, and the Sheriff-Coroner’s Office. A list of estimated Cannabis fees by County departments for 2024- 2025 with projected fee revenues and general fund support is included below. For the fiscal year 2024-2025 budget, the BOS projected the following total projected costs, fee revenues, General Fund Support needed for the Cannabis Program.

Figure 1

	FY 2024-25 Projected Expense*	FY 2024-25 Fee Revenue**	General Fund Support
ACTTC	\$123,882	\$123,882	\$0
Planning and Building	\$122,056	\$106,333	\$15,723
Sheriff-Coroner	\$1,809,229	\$865,471	\$943,758
Total	\$2,055,167	\$1,095,686	\$959,481

*This does not include illegal Cannabis expenses

**This does not include Cannabis Business Tax

In September 2022, the BOS established the Sheriff’s Office Cannabis Compliance Unit (SOCCU). This unit was structured to be responsible for both legal and illegal cannabis enforcement in the County. The creation of the SOCCU transferred oversight of legal cannabis licensing and monitoring from the Planning and Building Department to the Sheriff’s Office. This includes conducting background checks for applicants and their employees, conducting site visits and inspections, and addressing citizen complaints. As noted, the SOCCU is also responsible for illegal cannabis enforcement. Illegal activities can be either criminal or civil. Illegal cannabis operations include unpermitted operators and individuals not in compliance with state and local ordinances. An example of a civil violation would be a homeowner growing marijuana plants outdoors for personal consumption.

The SOCCU is comprised of the following personnel:

Position	Full-Time Equivalent (FTE) Employees
Sergeant	1.0
Deputy Sheriff	2.0
Accountant	1.0
Admin. Serv. Officer	1.0
Program Manager	1.0
Sen. Inf. Tech. Spec.	1.0
Senior Planner	1.0
Res. Protection Spec.	3.0
TOTAL	11.0

The projected allocation in the 2023-2024 County Budget for the SOCCU was \$1.9 million with revenue generated through the collection of fees in the sum of \$1.5 million. For comparison, Monterey County has 23.5 FTE staff assigned to their cannabis program with a total cost of \$6.3 million. Of the total number of staff, two are assigned from the Sheriff's Office.³ In fiscal year 2020-2021, cannabis generated \$20 million in tax revenue for Monterey County. It should be noted that those revenues have been in decline over the last two years.⁴

In September of 2022, the BOS approved a new fee structure for cannabis licensing. The Cannabis Compliance Program is deemed to be a service provided by the County that is only of benefit to its participants. For programs that are deemed to be beyond tax-supported services, the BOS policy is to recover all costs of a program from the beneficiaries of that program. The cost of these services that are provided beyond the basic County services are supported by the collection of fees. The fee structure for the Cannabis Compliance Program was implemented with the goal of achieving cost neutrality without support from the County's General Fund. Cannabis licensing fees paid by applicants were intended by BOS policy to fund the entire cost of the Cannabis Compliance Program.

³ Monterey County Cannabis Program

⁴ Monterey County Cannabis Program Indicators, Monterey County Cannabis Program

Based on the 2023-2024 fee structure, a new cannabis cultivation business applicant pays in excess of \$36,500 for the SOCCU licensing fees. The majority of this first year’s fee consists of \$24,930 for a background check and \$11,570 for site inspections. Continuing cannabis operators are also required to undergo an annual background check at a cost of \$18,000. Prior to 2022 there was no fee charged for a background check. The BOS revised the fee schedule on February 27, 2024. In regard to new applicants, this revision was more of a recharacterization of the fees and modification of the timing of the payment of these fees. Two tables with the complete Sheriff’s Office fee structure (as updated on 2-27-24) are included below:

Figure 2

Sheriff's Office Cannabis Fees				
Fee Description	Current Fee	Proposed Fee	Fee Amount Increase	Percent Increase
Cannabis Business Application (Cultivation) Phase 1	\$12,600	\$14,142	\$1,542	12.2%
Cannabis Business Application (Cultivation) Phase 2	\$12,030	\$12,311	\$281	2.3%
Cannabis Business Application (Non-Cultivation) Phase 1	\$12,600	\$14,142	\$1,542	12.2%
Cannabis Business Application (Non-Cultivation) Phase 2	\$10,991	\$11,204	\$213	1.9%
First Year Site Visits (Cultivation)	\$11,570	\$12,884	\$1,314	11.4%
First Year Site Visits (Non-Cultivation)	\$9,423	\$9,640	\$217	2.3%
Cannabis Business License Background for Added Partner	\$3,079	\$3,973	\$894	29.0%
Annual Cannabis Business Fee (Cultivation)	\$18,702	\$20,493	\$1,791	9.6%
Annual Cannabis Business Fee (Non-Cultivation)	\$15,441	\$16,214	\$773	5.0%
New Location Background (Cultivation)	\$18,804	\$16,675	(\$2,129)	-11.3%
New Location Background (Non-Cultivation)	\$16,931	\$15,223	(\$1,708)	-10.1%
Cannabis Business Employee Background	\$628	\$764	\$136	21.7%
Cannabis Labor Contractor Background	\$3,302	\$3,542	\$240	7.3%
Major Violation	\$16,396	\$19,483	\$3,087	18.8%
Minor Violation	\$4,958	\$5,436	\$478	9.6%
Notice of Nuisance	\$1,244	\$1,397	\$153	12.3%

Figure 3

Sheriff's Office New Cannabis Fees		
Fee Description	Current Fee	Proposed Fee
First Year Site Visits (Testing Facility)	\$0	\$2,818
Annual Cannabis Business Fee (Testing Facility)	\$0	\$4,784

These above licensing fees do not include the fees required by the Planning and Building Department, and the Tax Collector. The fee schedule for those services is included below:

Figure 4

Auditor-Controller-Treasurer-Tax Collector Cannabis Fees				
Fee Description	Current Fee	Proposed Fee	Fee Amount Decrease	Percent Decrease
Cannabis Tax Compliance Program	\$3,918	\$3,097	(\$821)	-21.0%

Figure 5

Planning and Building Cannabis Fees				
Fee Description	Current Fee	Proposed Fee	Fee Amount Increase	Percent Increase
Amendment to Approved Land Use Permit - Cannabis Deposit (R26cn)	\$8,662	\$9,587	\$925	10.7%
Appeal (Cannabis) – Approval / Denial of a Cannabis-Related Land Use Permit, or Request for Review of an Environmental Determination (A30cn)	\$850	\$850	\$0	0%
Business License Review - "Cannabis" (L01cn)	\$300	\$307	\$7	2.3%
Zoning Review - "Cannabis" (L04cn)	\$404	\$409	\$5	1.2%
Conditional Use Permit / Development Plan - "Cannabis" (RTB Deposit plus Processing Costs) (L45cn)	\$13,455	\$14,921	\$1,466	10.9%
Minor Use Permit - Tier II - "Cannabis" (RTB Deposit plus Processing Costs) (L31cn)	\$11,266	\$12,187	\$921	8.2%
Minor Use Permit -Tier III - "Cannabis" (RTB Deposit plus Processing Costs) (L32cn)	\$12,496	\$13,755	\$1,259	10.1%
Pre-Application Meeting - "Cannabis" (L52cn)	\$1,443	\$1,581	\$138	9.6%
Pre-Application Meeting with Site Visit - "Cannabis" (L53cn)	\$1,652	\$1,818	\$166	10.0%
Environmental - Exemption (Cannabis) (EX01cn)	\$1,588	\$1,756	\$168	10.6%
Environmental - Initial Study - Cannabis (RTB deposit plus processing costs) (IS01cn)	\$12,907	\$13,940	\$1,033	8.0%
Cannabis Greenhouse - Plan Check	\$.56 per sq foot	\$.98 per sq foot	\$0.42	75.0%
Cannabis Greenhouse - Inspection	\$.42 per sq foot	\$.68 per sq foot	\$0.26	61.9%
Cannabis Hearing Docket Fee (H10cn)	\$365	\$404	\$39	10.7%

In determining the fee structure for the SOCCU, the BOS considered the number of new and continuing cannabis businesses and anticipated new applicants. Those projections were used to estimate anticipated revenues and to establish the staffing needs for the SOCCU. As previously noted, when the BOS passed a temporary urgency ordinance in 2016 there were more than 400

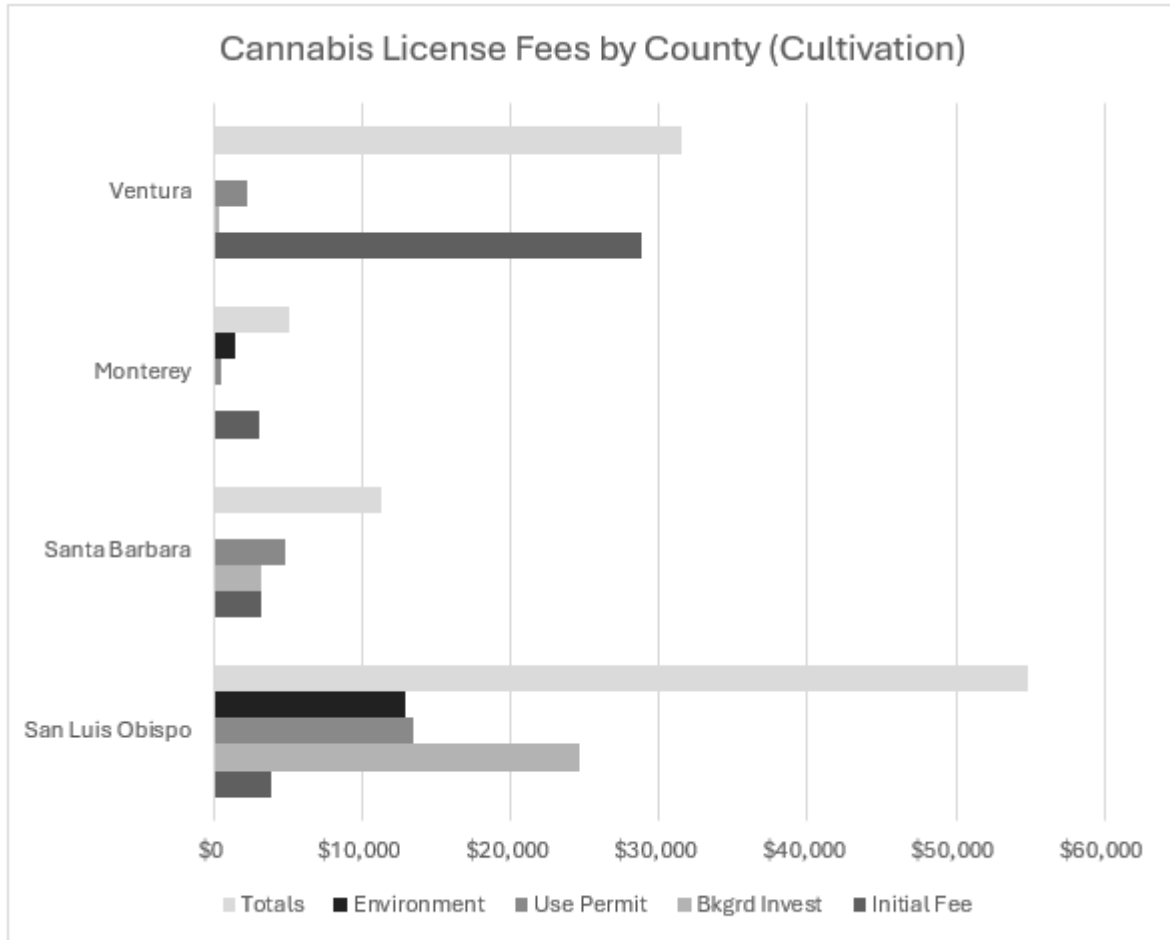
cannabis cultivators operating under Prop 215. By 2021 this number decreased to approximately 140.⁵ In 2023 the number of legal cannabis operations decreased to approximately 25. From July 1, 2023, to February 29, 2024, there have been no new applications for cannabis business licenses in the unincorporated areas of the County. These figures are markedly below what was projected by the BOS in the 2022 report from MGT.

According to the DCC, as of March 12, 2024, the current amount of acreage approved for cannabis cultivation in the unincorporated areas of SLO County is 19.78 acres (861,602.8 square feet). Presently DCC does not have information as to the number of these acres that are currently producing cannabis. These numbers coincide with data provided by the SOCCU. The DCC reports that there are 17 applications under review which, if approved, would increase this amount by another 8.38 acres (364,850 square feet).

Cannabis businesses and advocates for the industry have cited several barriers to conducting business in the County. One area of concern is the high cost of the licensing fees. An analysis of neighboring counties and local municipalities revealed that cannabis licensing fees in San Luis Obispo County are significantly higher. For comparison, the fee for a background check in the County is approximately \$24,000 whereas in Santa Barbara County it is approximately \$5,000. The State license fee for a medium size outdoor cultivation site is approximately \$14,000. A table that compares other jurisdictions is included below:

⁵ San Luis Obispo County, Administrative Office Featured News, August 31, 2021

Figure 6



(Source: 2023 – 2024 SLO Grand Jury open-source research)

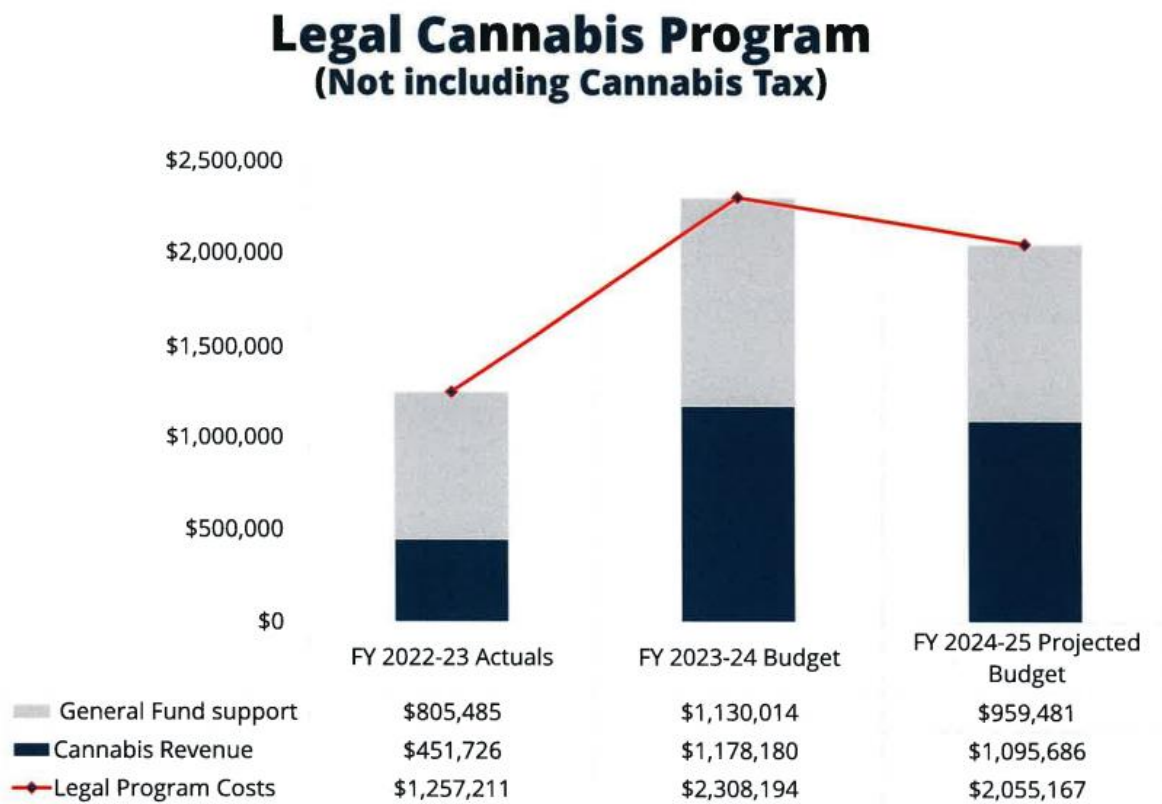
Members of the cannabis industry view ordinances as being restrictive and profit limiting. For example, cultivators are prohibited from processing product on site and their product must be transported outside of San Luis Obispo County for further processing. Additionally, mobile deliveries are restricted to the hours of 8:00 A.M. to 8:00 P.M. in unincorporated areas of SLO County. In contrast, mobile deliveries are allowed from Santa Barbara County to cities within San Luis Obispo County as well as the unincorporated areas of this County until 10:00 P.M.

Impact to General Fund

As currently structured, legal cannabis has not provided financial benefit to San Luis Obispo County. It has not been cost neutral as intended by BOS rule, requiring financial support from the General Fund. The majority of the cost for the cannabis program incurred to the County was

funding the SOCCU. The final budget allocation in 2023-2024 for that unit was \$2.3 million whereas revenues for that year were projected to be \$1.2 million. In 2024 -2025, the County is recommending a budget allocation of \$2 million for the Cannabis Program. The County is projecting revenues of \$1.1 million from the collection of cannabis fees. This has created a deficit each year that requires financial support from the General Fund. The General Fund support for the Cannabis Program was \$800,000 in 2022-2023, \$1,1 million in 2023-2024, and is projected to be \$950,000 in 2024-2025. The BOS projected an additional revenue of \$370,000 from cannabis business taxes. A table that compares the County’s Legal Cannabis Program over three fiscal years is included below:

Figure 7



During this investigation, the SLOGJ gathered data from other jurisdictions pertinent to cannabis regulation. Within the County, the cities have taken a variety of approaches to implementing legal cannabis. Some cities including Arroyo Grande, Atascadero, and Paso Robles have restricted

cannabis activities exclusively to mobile delivery. These restrictions have a minimal impact on those cities' budgets. Conversely, there is little tax revenue generated.

By comparison, Grover Beach has fully embraced the cannabis industry. In that city not only does the program cover the cost of licensing and compliance, but sales taxes have generated more than a million dollars in revenue annually for that city's general funds. At the State level, based on information provided by the State's DCC, licensing and monitoring of legal cannabis operate at a net gain to the State budget.

The advent of legalized cannabis has not eradicated illegal cannabis activity. In January of 2024, a large amount of illegal cannabis was seized by law enforcement in Santa Barbara County.⁶ In that same month in San Bernardino County there was a multiple-murder case that was determined to be connected to illegal cannabis.⁷ These recent events underscore the continued need for law enforcement involvement in the cannabis industry. As reported in the 2022 San Luis Obispo Sheriff's Annual Report, the SOCCU responded to five criminal cannabis sites, eradicated 6,700 illegal cannabis plants, and seized 2,000 pounds of illegal processed cannabis. In 2022-2023, the combined cost for the County of illegal cannabis enforcement was \$270,000. The cost of this enforcement cannot legally be recouped via fees paid by legal cannabis operators. In the past the County has used grants to conduct aerial surveillance of illegal cannabis cultivation sites. For enforcement of legal cannabis compliance in 2022-2023, the SOCCU issued 17 code violations and responded to 28 cannabis complaints.

The BOS has been reviewing the state of the cannabis industry in SLO County. As previously mentioned, there has been a revision of the licensing fee schedule. The Cannabis Business Tax was reduced to 6% to encourage new businesses. The BOS has been exploring the option of licensing retail locations in specific unincorporated areas of the County. As of the date of this

⁶ Santa Barbara County Sheriff's Office Website, January 25, 2024

⁷ "5 Suspects Charged With Murder in Southern California Desert Killings in Dispute Over Marijuana," US News, Associated Press, January 30, 2024

report, the BOS has not made a final determination. There has also been discussion of expanding the hours for mobile deliveries to increase sales.

The 2024-2025 BOS budget proposal does not appear to address staffing levels for the SOCCU that were recommended to the County by MGT in their August 2022 report to the BOS.⁸ In the staff report prepared for the BOS, the SOCCU presented an analysis of the Cannabis Compliance Program. This analysis included a description of the operational needs and responsibilities in order to conduct the program. As discussed more fully in the following paragraph, that analysis did not evaluate whether the SOCCU was overstaffed or if the process is overly complex.

As noted above, the BOS recently addressed the County's budget for cannabis licensing when it was setting fees for the upcoming 2024-2025 fiscal year. The staff report concluded that based on this analysis the SOCCU staff was able "to recognize all operational needs and obligations to run a successful and safe Cannabis program."⁹

As stated in the staff report, "the proposed fees are due to an increase in salaries and the department's indirect cost rates, along with an overall reduction in the number of units for each fee."¹⁰ The conclusion is then provided that "if fees are not approved, it is anticipated that the amount of General Fund support required to fund the existing departmental operations would increase..." What is missing from the staff report and BOS consideration was whether the SOCCU was appropriately staffed and, more specifically, whether it was, in fact, overstaffed. Rather, the analysis justifying the budget funding presumes that the level of staffing is correct. That same analysis was then used to adjust the funding upward because of an increase in salaries. The failure to examine the level of staffing of the SOCCU was a fundamental omission.

⁸ MGT Countywide Cannabis Program Report of Findings Study, page 3-4

⁹ *ibid*

¹⁰ Staff Report to the BOS dated February 6, 2024, page 6

The recharacterization of the Cannabis Licensing fees is best demonstrated by a comparison of the data contained in two staff reports to the BOS—one dated September 26, 2023 and the second dated February 6, 2024.

The Sheriff’s Office Fees in 2023 are set out on page 3 of Attachment 2 of the Staff Report to the BOS dated September 26, 2023, as follows:

Fee Description	Fee
Cannabis Business License Background (Cultivation)	\$24,630
Cannabis Business License Background (Non-Cultivation)	\$23,591

Sheriff’s Office Fees proposed for fiscal year 2024-2025 are described on page 6 of the Staff Report to the BOS dated February 6, 2024.

Fee Description	Current Fee	Proposed Fee
Cannabis Business Application (Cultivation) Phase 1	\$12,600	\$14,142
Cannabis Business Application (Cultivation) Phase 2	\$12,030	\$12,311
TOTAL*	\$24,630	\$26,453
Cannabis Business Application (Non-Cultivation) Phase 1	\$12,600	\$14,142
Cannabis Business Application (Non-Cultivation) Phase 2	\$10,991	\$11,204
TOTAL*	\$23,591	\$25,346

As these tables reflect, the description of the fee was changed from “background” in connection with licensing fees and replaced with “application.” Moreover, the payments were segmented into Phase 1 and Phase 2. When looking at total fees, this resulted in the BOS approving an overall increase of approximately 7%.

CONCLUSION

During this investigation, the SLOGJ evaluated a number of issues and concerns regarding the legal cannabis industry. The SLOGJ noted that in jurisdictions where cannabis programs generate revenue, they treat cannabis businesses in the same manner as any other legitimate business. This may include streamlining the licensing process, reducing fees, and lowering excise taxes.

A statewide trend that impacts the ability of jurisdictions to determine cannabis policy is the unpredictability of the revenue generated by the legal cannabis industry. In short, revenues have not been constant from year to year. In several locations cannabis revenue seems to have peaked and is now in decline.

Legal cannabis in San Luis Obispo County has not proven a financial windfall to the County and in fact has had a negative impact to the County's General Fund. Legal cannabis can and should be economically viable and provide benefit to communities where it is allowed. To achieve this, governing boards may consider adapting and modifying ordinances and fees as the cannabis industry evolves. Ordinances and policies should be done in consideration with the needs of all stakeholders. No one group should bear the greater burden of cost nor unduly benefit either. Ultimately, governing boards must ensure that the cannabis industry is conducted in a manner that is safe, responsible, and responsive to the needs of the community.

In March 2024 the California State Auditor (CSA) released an audit report (#2023-116) titled "Local Cannabis Permitting: Cities and Counties Can Improve Their Permitting." The audit involved "cannabis-permitting processes" of the counties of Monterey, Santa Barbara, and the cities of Fresno, Sacramento, San Diego, and South Lake Tahoe. Although the report did not specifically examine San Luis Obispo County, the key findings and recommendations could be applicable to

the County’s Cannabis Program. In this report the CSA issued “Key Points,” one of which discussed cannabis business fees:

“Local jurisdictions charge applicants fees—that varied widely in amount for the six jurisdictions we reviewed—to apply for and complete the cannabis-permitting process.”

The CSA report made the following observation regarding high cannabis business fees examined during their audit:

“Local jurisdictions charge fees to recoup the costs of administering a permitting process, though such fees can present a barrier to entry if costs are high.”

Finally, the CSA audit report contained “Recommendations,” one of which described increasing “the transparency of the cannabis-permitting process for potential applicants and for the public:”

Publish permit-related ordinances, permit information, and permit application forms on the relevant public website.

Create supplemental communications about the cannabis-permitting policies and procedures, such as step-by-step guides and frequently asked questions.

Develop a web application through which applicants can apply.

Publish cannabis-related fees on the relevant public websites.

FINDINGS

- F1. The current fee revenue from the Cannabis Program in San Luis Obispo County is insufficient to support the SOCCU at its current level, preventing the program from being cost neutral as required by Board of Supervisors’ policy.
- F2. The fees necessary to obtain a cannabis license in the County are significantly higher than surrounding jurisdictions, contributing to fewer than anticipated new license applications.

- F3. The Board of Supervisors has not conducted a review of staffing levels needed for the Cannabis Compliance Program to determine if the SOCCU is overstaffed relative to the number of active cannabis cultivators and applications for licenses.
- F4. The limited number of new applications in this fiscal year will not generate sufficient revenue to offset the cost of the SOCCU in the County budget, resulting in the program continuing to operate at a deficit.

RECOMMENDATIONS

- R1. The Board of Supervisors should conduct a review of staffing levels in the SOCCU relative to the number of licensed businesses and new applicants by December 31, 2024.
- R2. The Board of Supervisors should conduct an analysis of the current fee structure with the goal of becoming more competitive with neighboring jurisdictions by December 31, 2024.
- R3. The Sheriff's Office should conduct an analysis of its background-check process to identify areas where cost savings could be realized to reduce the background-check fee and be in alignment with other counties by December 31, 2024.

RESPONSES

The San Luis County Board of Supervisors is required to respond to R1 & R2 within 90 days.

The San Luis Obispo County Sheriff's Office is required to respond to R3 within 90 days.

All responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court. A paper copy and an electronic version of all responses shall be provided to the Grand Jury.

933.05. Findings and Recommendations

- (a) For purposes of subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:
- (1) The respondent agrees with the finding.
 - (2) The respondent disagrees wholly or partially with the finding; in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

(b) For purposes of subdivision (b) of Section 933, as to each grand jury recommendation, the responding person or entity shall report one of the following actions:

- (1) The recommendation has been implemented, with a summary regarding the implemented action.
- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

Presiding Judge	Grand Jury
Presiding Judge Rita Federman Superior Court of California 1035 Palm Street Room 355 San Luis Obispo, CA 93408	San Luis Obispo County Grand Jury P.O. Box 4910 San Luis Obispo, CA 93403

GLOSSARY

ACTTC	Auditor Controller Treasurer Tax Collector, San Luis Obispo County
BOS	Board of Supervisors, San Luis Obispo County
Cannabis	“Cannabis” refers to a group of three plants with psychoactive properties known as Cannabis sativa, Cannabis indica, and Cannabis ruderalis. Also referred to as marijuana.
County	County of San Luis Obispo
CSA	California State Auditor
DCC	Department of Cannabis Control, State of California
DOJ	Department of Justice, United States
General Fund	San Luis Obispo County General Fund
Proposition 64	California ballot initiative passed in 2016, aka “The Adult-Use of Marijuana Act”
SLOGJ	San Luis Obispo County Grand Jury
SOCCU	Sheriff’s Office Cannabis Compliance Unit, San Luis Obispo County
State	State of California
Unlicensed	Business not licensed or legally authorized to sell cannabis products to the public. Also known as “illegal” or “black market.”

BIBLIOGRAPHY

Print Media

“5 Suspects Charged With Murder in Southern California Desert Killings in Dispute Over Marijuana,” US News, Associated Press, January 30, 2024

San Luis Obispo County Staff Reports

Planning and Building Staff Report to the Board of Supervisors, September 23, 2023

Staff Report to the Board of Supervisors dated February 6, 2024

Websites

Monterey County Cannabis Program Website,
<http://countyofmonterey.gov/cannabisprogram>

Santa Barbara County Website, Cannabis Regulation & Licensing
<https://www.countyofsb.org/2705/cannabis-regulation-licensing>

Santa Barbara County Sheriff's Office Website, January 25, 2024,
<https://www.sbsheriff.org/Santa-Maria-Man-Arrested-For-Illicit-Cannabis-Sales>

San Luis Obispo County, Administrative Office Featured News, Dayspring August 31, 2021, <https://www.slocounty.ca.gov/departments/administrative-office/featured-news-.aspx>.
"Dayspring August 31, 2021" and "Temporary Cannabis Cultivation Rules for SLO County Extended, August 30, 2017"

San Luis Obispo County Board of Supervisors,
<https://www.slocounty.ca.gov/departments/board-of-supervisors>

San Luis Obispo County Sheriff's Office,
<http://www.slosheriff.org>

San Luis Obispo County Planning and Building,
<https://www.slocounty.ca.gov/departments/planning-building/department-services.aspx>

Ventura County Website,
<https://www.ventura.org/cannabis>

San Luis Obispo County Documents

San Luis Obispo County Ordinances Nos. 3334 (September 20, 2016), 3357 (November 27, 2017), 3358 (November 27, 2017), 3424 (September 21, 2020), 3477 (August 15, 2022)

San Luis Obispo County Sheriff's Office Annual Report 2022,
<http://slosheriff.org>

California State Auditor Report

Audit report number 2023-116, Local Cannabis Permitting: Cities and Counties Can Improve Their Permitting, March 2024,
<https://www.auditor.ca.gov>

Outside Consultant Reports

MGT Countywide Cannabis Program Report of Findings Study, San Luis Obispo County, California, August 10, 2022,
<https://mgtconsulting.com>

"Monterey County Cannabis Program Strategic Plan July 2020 to June 2,"
<http://countyofmonterey.gov/cannabisprogram>