

DEPARTMENT OF
CANNABIS REGULATION

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April 21, 2026

Council File 26-0600

Los Angeles City Council
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

Attention: Budget and Finance Committee

DEPARTMENT OF CANNABIS REGULATION – MAYOR’S FY 2026-27 PROPOSED BUDGET

Dear Honorable Members:

Thank you for the opportunity to respond to the Mayor’s Fiscal Year (FY) 2026-27 Proposed Budget for the Department of Cannabis Regulation (DCR). DCR is grateful to the Mayor for the resources provided and recognizes the complex fiscal conditions facing the City and its leadership.

DCR is committed to operating as a lean, self-sufficient department, and this budget submission reflects that commitment. The City’s licensed cannabis market is navigating a significant contraction: cannabis tax revenue has declined approximately 38 percent from its peak in FY 2020-21 and is continuing on a downward trend in collecting less than \$100 million for a third consecutive year. DCR has responded proactively, proposing \$3.6 million in reductions to the Cannabis Regulation Special Revenue Trust Fund 60E (14 percent) while pursuing structural changes that will reduce costs and improve financial controls over the long term. The Mayor’s Proposed Budget incorporates DCR’s internal cuts, which DCR appreciates. However, nearly all of DCR’s proposed external reductions were not included. The three requests and additional reductions not included in the Mayor’s Proposed Budget are targeted, practical fixes—not expansions—designed to address structural problems that DCR cannot resolve with existing resources. DCR’s full Reduction Package, had it been adopted, would have limited fee increases to approximately 15 percent, using updated related cost reimbursement rates. Based on the Mayor’s Proposed Budget as currently proposed, fees may increase approximately 27 percent.

Each of the requests DCR presents in this letter are driven by a distinct structural need. For DCR’s Enforcement Program, public safety is its top priority and the nature of compliance and investigations makes capping costs based on recovery targets a public safety risk. Doing so would create a direct disincentive to act on community complaints and undermine the program’s core public safety mission—possibly endangering communities and consumers alike. For DCR’s Financial Oversight request, DCR began operations nearly nine years ago and needed to rely

on City-wide shared services because it was a new department without the administrative infrastructure required to function like any other department. DCR is now a mature, fully-resourced department, and the continued reliance on fragmented external services has created operational inefficiencies and challenges that are outside of the Department’s control to resolve. Bringing these functions in-house is not an expansion but a necessary step in DCR’s development as a self-sufficient City department. Phase 1 of this transition will generate immediate cost savings by eliminating \$213,000 in direct funding currently provided to the City Clerk, which offsets the cost of the new Principal Accountant position. This phase lays the groundwork for a full transition in FY 2027-28 that will expand payment options for applicants citywide, reduce processing delays, and yield further cost savings to Fund 60E that should translate to reduced fees. For the Social Equity Program (SEP) request, the support provided by the Business, Licensing, and Compliance Assistance Program (BLC Program) remains vital to the long-term success of Social Equity Individual Applicants (SEIAs) and the City’s equity commitments. While State grant funding will help sustain core programming, there are ongoing challenges facing SEIAs that grant dollars alone cannot address, and continued General Fund investment is essential to ensuring SEP fulfills its purpose.

DCR administers the nation’s largest municipal commercial cannabis program, regulating over 1,000 commercial cannabis licenses at approximately 700 business locations throughout the City of Los Angeles (City). DCR fulfills its mission by processing applications for commercial cannabis licenses, making licensing decisions and recommendations to the Cannabis Regulation Commission, regulating licensed commercial cannabis businesses, and administering a Social Equity Program, a crucial component and a pillar at DCR.

The Department remains committed to supporting the commercial cannabis industry while protecting the City’s long-term fiscal interests. To reduce impacts to the General Fund, DCR has worked with the Office of Finance to address outstanding cannabis business taxes, and has conducted annual fee studies to adjust fees and fines associated with the regulation of Commercial Cannabis Activity to maintain full cost recovery for commercial cannabis application, licensing, inspection, and regulatory services.

Historically, SEP has been funded by General Fund and State grant monies. While DCR has worked arduously year after year to secure State grant funding, a General Fund capital injection could serve to provide further resources, ensuring our SEIAs remain in the licensed industry. With this in mind, DCR understands the City is currently in a particularly difficult financial situation which is why this past year, DCR worked diligently to secure a \$3.5 million grant from the California Governor’s Office of Business and Economic Development (GO-Biz) to support SEP in the coming fiscal year, which includes resources to continue the BLC Program. However, it is important to note that the available State grant pool continues to further shrink due to the expansion of jurisdictions allowing commercial cannabis activity throughout the state. With GO-Biz funding, the Department will continue limited Social Equity programming by providing educational courses and webinars, direct technical assistance and one-on-one coaching, workforce development, networking events, and enhanced communications and public outreach services to Social Equity businesses, as well as direct financial support in the form of fee waivers.

Significant Departmental-Level Changes Between FY 2025-26 Adopted Budget and the Mayor's FY 2026-27 Proposed Budget

The Mayor's FY 2026-27 Proposed Budget reflects several elements of DCR's Reduction Package, which the Department developed in response to a contracting cannabis market and the City's broader fiscal constraints. The significant changes included in the Mayor's Proposed Budget are:

- Deletion of three (3) regular authority and four (4) resolution authority positions, representing an 11 percent reduction in the Department's authorized position count and total salaries and related costs of \$1.5 million; and
- Reduction in support from the Cannabis Regulation Special Revenue Trust Fund No. 60E to the Office of the City Attorney, representing two (2) resolution authority positions and a \$575,000 decrease in special fund expenditures for these services. **Notably, DCR's proposed reductions to the Los Angeles Police Department (\$451,000), Office of the City Clerk (\$213,000), and the Personnel Department (\$465,000) were not included in the Mayor's Proposed Budget.**

Together, the reductions included in the Mayor's Proposed Budget result in approximately \$2.0 million in savings to Fund 60E, or a six (6) percent reduction from the FY 2025-26 Adopted Budget level. DCR's budget submission proposed further reductions and changes that in total would result in approximately \$3.6 million in savings to Fund 60E, or a 14 percent reduction from FY 2025-26. DCR proposed these reductions proactively and remains committed to right-sizing its operations and finding ways to reduce costs to Fund 60E to reflect current market conditions. The Committee's consideration of the additional external reductions and requests described below would meaningfully reduce the anticipated impact on license fees next year, and put DCR on a path for further cost-savings in the future.

Department Requests

While DCR is grateful for the Mayor's support of several elements of our proposed budget, three departmental requests and several proposed reductions were not included in the Proposed Budget. The Department respectfully asks the Committee to consider the following:

- **Enforcement Program Realignment**

DCR's Compliance and Enforcement program fulfills one of the Department's primary responsibilities by reviewing and addressing compliance complaints on licensed businesses and completing Annual Compliance Inspections for all licensed retail and non-retail cannabis businesses. The Department is committed to thoroughly and expeditiously investigating complaints on licensed businesses while working to complete all required annual compliance inspections. It is important to note that because DCR's regulatory authority is limited to licensed businesses, and because DCR is a full cost-recovery department, all complaints related to unlicensed businesses are referred to the Los Angeles Police Department (LAPD).

At the inception of DCR, enforcement activities were assumed to operate under the same full cost-recovery model as all other Department operations. However, as the enforcement program has matured since its launch in 2023, DCR has gained a clearer understanding of the scope and complexity of enforcement work. These enforcement activities are driven by community complaints and public safety concerns, requiring the Department to prioritize issues based on risk and impact, which makes them unsuitable for a full cost-recovery funding structure. Under the current model, a single code violation inspection carries a fully loaded cost of approximately \$16,000. Requiring struggling licensed operators to absorb that fee for relatively minor violations creates a direct disincentive for the Department to investigate these complaints—a chilling effect that undermines the community safety goals this program is meant to achieve.

In addition to two (2) existing Special Investigator I (SI) positions assigned to the Department’s Enforcement program, **DCR requests to transition the funding of two (2) existing SI positions on resolution authority and one (1) Deputy City Attorney III position within the Office of the City Attorney, to the General Fund** (total direct cost of \$460,000, indirect costs of \$287,000). Currently, these positions are funded by Fund 60E; however, the Enforcement program’s complaint driven and variable workload makes this funding unstable.

Transitioning these positions to the General Fund will allow investigators to prioritize public safety and nuisance complaints based on community impact rather than cost recovery considerations. This approach eliminates the need to distribute enforcement-related costs across compliant businesses with minor violations and instead focuses collections on operators with significant violations of the City’s regulations. Aligning enforcement funding with the General Fund is consistent with how code enforcement operations are funded at the Department of Building and Safety (DBS) and other agencies, and better reflects the public safety nature of this work, ensuring a more stable, equitable, and effective service delivery model.

- **New Funding for Financial Oversight**

As DCR has matured into a fully operational department, it is time for DCR to take the steps necessary to take ownership of the core financial functions that were initially delegated to City-wide shared services due to the Department’s nascent status. As part of a broader effort to improve efficiency and strengthen accountability, the Department proposes a phased transition of financial functions currently performed by the Office of the City Clerk (City Clerk) and the Office of Finance (Finance) to DCR. Phase 1 (FY 2026-27) would establish an in-house financial oversight unit that would begin absorbing payroll and accounting support functions and set DCR on a course to reduce external costs and improve data accuracy. Phase 2 (FY 2027-28) will complete the transition, expanding payment options for applicants, reducing processing delays, and yielding further cost savings for Fund 60E that should translate to reduced fees. Our request for FY 2026-27 lays the foundation that makes Phase 2 possible.

When DCR was established in 2017, it was appropriate to rely on Finance and the City Clerk for payroll, accounting support, and payment processing. As a new department, DCR lacked the administrative infrastructure and staffing to manage these functions independently. That is no longer the case. DCR has matured into a fully operational, self-sufficient City department. With that maturity comes the responsibility to manage core financial functions in-house, as other permitting departments do. Continuing to outsource these responsibilities does not reflect where DCR is today, and the current fragmented structure has created real consequences for the applicants and licensees DCR serves. Payment processing and reconciliation delays have resulted in processing lag times that affect licensees’ ability to operate and reflect poorly on the Department, even when DCR is not the source of the delay. These delays stem from a workflow that spans multiple offices and systems not designed for permitting revenue. Currently, DCR relies on Finance and DBS to perform disparate and duplicative components of the cannabis payments and reconciliation workflow—a fragmented structure that results in duplicated costs, inconsistent financial data, and delayed reconciliations. In addition, unlike other City permitting departments that receive payments via DBS cashiers and the UCS, DCR currently relies on the Office of Finance’s LATAX system, a platform designed for tax collection, not permitting revenue. This results in fragmented reconciliation workflows and a misaligned administrative infrastructure. Transitioning to DBS and the UCS will align DCR with the standard permitting payment model used by various permitting departments at the Development Services Centers, and establish the financial infrastructure appropriate for a licensing and permitting department.

To support the transition in Phase 1, **DCR requests funding and resolution authority for one (1) Principal Accountant** to lead the development and implementation of an internal accounts receivable (A/R) system and establish the necessary processes and systems to assume the reconciliation responsibilities currently held by Finance. Total direct cost for this request would be \$117,000, which would be fully funded by Fund 60E.

As part of Phase 1, **DCR also proposes to eliminate direct funding to the City Clerk** (\$213,000 total funding) by absorbing the limited payroll and accounting support functions currently provided by City Clerk through DCR’s in-house accounting unit. This eliminates a duplicative service, which DCR no longer requires as a fully-resourced department, and strengthens fiscal control at no additional cost.

- **Funding for the Social Equity Program**

The Social Equity Program is a principal tenet at DCR and continues to serve the most vulnerable population within our licensee pool. With no meaningful change to law at the Federal level, the main industry roadblocks—lack of access to banking, loans, and a DEA schedule I drug among others—remain intact, which means continued support and funding remain a core need.

SEP staff manage the BLC Program, which supports SEIAs and social equity licensees with workforce development training, targeted outreach, technical assistance, education on cannabis policies, advocacy for cannabis policy reforms, and other resources related to the licensed cannabis market.

DCR requests \$1.5 million from the General Fund to support the BLC Program and continue vital resources for SEIAs. This funding would support over 2,500 hours of one-on-one coaching and twenty-five (25) courses and six (6) webinars in the Learning Management System (LMS), covering topics central to running a sustainable cannabis business. These services are vital to lowering the barriers to entry for SEIAs and strengthening the long-term viability of the City’s equity program. General Fund support for the BLC Program also augments the \$3.5 million GO-Biz grant DCR secured to sustain the Social Equity Program in FY 2026-27.

- **Additional Proposed Reductions**

DCR proposes to discontinue direct funding to the Personnel Department (\$465,000 total funding), as the Department has sufficient internal staff to handle various personnel and administrative functions that were previously provided by dedicated, full-time Personnel staff when the Department initially lacked the necessary administrative support staff. Any human resources support that is required by the Department will instead be funded through the annual Cost Allocation Plan (CAP), maintaining access to services only Personnel can provide without the need for a direct appropriation or the assignment of full-time positions by Personnel.

DCR also proposes to discontinue direct funding of LAPD overtime (\$451,000 annually) which is used to provide additional security for the Office of Finance cash acceptance operations. Since FY 2021-22, DCR has contributed \$451,000 annually to LAPD’s overtime budget to pay for these security services for Finance. However, this funding has not supported dedicated positions or direct operational services for DCR. **On advice from the City Attorney, these costs are not an eligible use of DCR’s special fund, and are more appropriately funded through the Cost Allocation Plan under Office of Finance tax collection activities.** The majority of this funding has historically supported cannabis tax collection activities, which are Finance, not DCR, functions. Eliminating this direct appropriation would not reduce DCR’s regulatory capacity or the City’s ability to respond to cannabis-related public safety concerns.

Requests for Restoration of Services or Programs

DCR does not have any requests for restoration of services or programs.

Details on What Programs/ Operations are Handled within Each Division (ORG CHART)

Please see the attached department organizational chart which has been updated to reflect the Mayor’s Proposed Budget and annotated with the information requested.

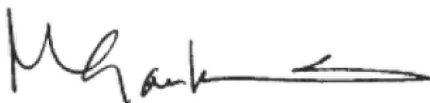
Conclusion

DCR appreciates your consideration of our Proposed Budget, and we thank you for the opportunity to address your Committee. The Department is entering FY 2026-27 with a clear-eyed understanding of the cannabis market’s contraction trend and the fiscal constraints facing

the City. DCR’s budget reflects that reality: the Department proposed significant reductions, both internal and external, totaling approximately \$3.6 million, or a 14 percent reduction from the FY 2025-26 Adopted Budget for Fund 60E. While DCR is grateful that the Mayor’s Proposed Budget incorporates DCR’s internal cuts, nearly all of the proposed external reductions were not included. Had DCR’s full Reduction Package been adopted, fees would be limited to an approximately 15 percent increase, using updated CAP 48 rates. Based on the Mayor’s Proposed Budget, even with DCR’s internal reductions included, fees may increase approximately 27 percent. The Committee’s support for the additional external reductions outlined in this letter, including the discontinuation of direct funding to the Personnel Department, City Clerk, and LAPD, would meaningfully reduce that financial burden on licensed businesses.

The three requests and additional reductions before the Committee are structural corrections—not expansions—that will make DCR more operationally sound, protect the City’s remaining licensed businesses, and position the Department to generate meaningful cost savings in the years ahead. We look forward to discussing these requests with the Committee.

For any questions regarding DCR’s Proposed Budget, you may contact Chief Management Analyst Zach De Corse at zachary.decorse@lacity.org.



MICHELLE GARAKIAN
Executive Director

cc: Mitch Kamin, Chief of Staff to the Mayor
Rachel Freeman, Deputy Mayor of Business and Economic Development
Matt Hale, Deputy Mayor of Finance, Operations, and Innovation
Sharon Tso, Chief Legislative Analyst
Matthew W. Szabo, City Administrative Officer

Attachment: Annotated DCR FY 2026-27 Proposed Budget Organizational Chart

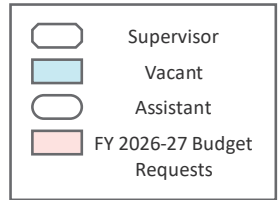
Department of Cannabis Regulation
FY 2026-27 Proposed Budget
Organizational Chart

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DEPARTMENT OF CANNABIS REGULATION

FY 2026-27 Proposed Budget Organizational Chart

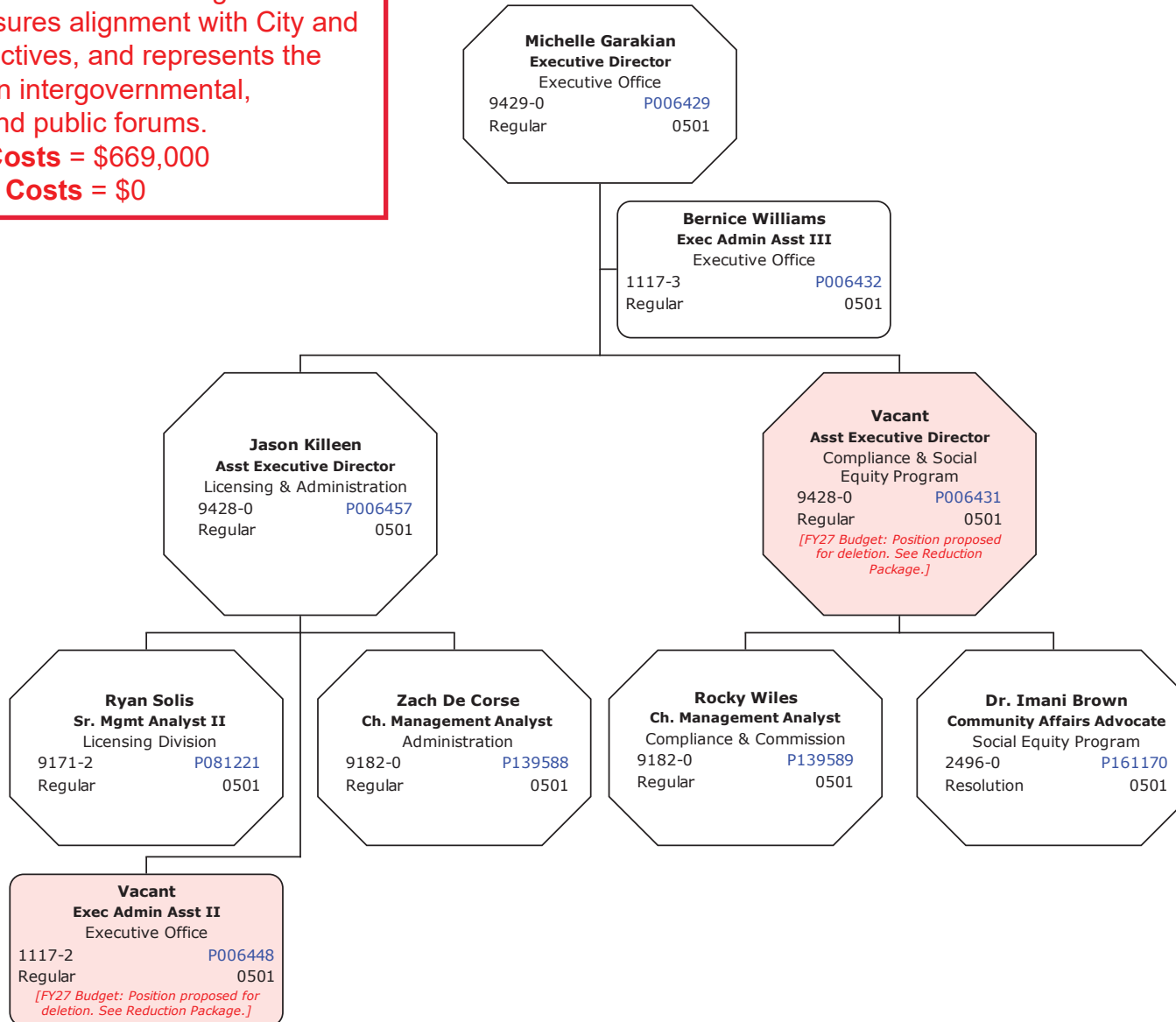


Executive Office:

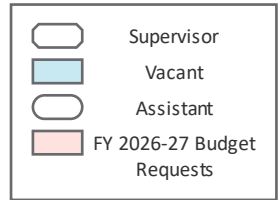
Provides strategic leadership and oversight for the department's operations, programs, and policy initiatives. It sets organizational priorities, ensures alignment with City and Mayoral objectives, and represents the department in intergovernmental, legislative, and public forums.

Personnel Costs = \$669,000

Contracting Costs = \$0



DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart

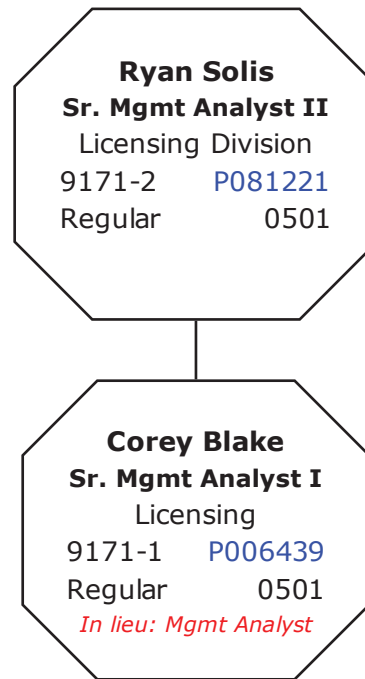


Licensing Division:

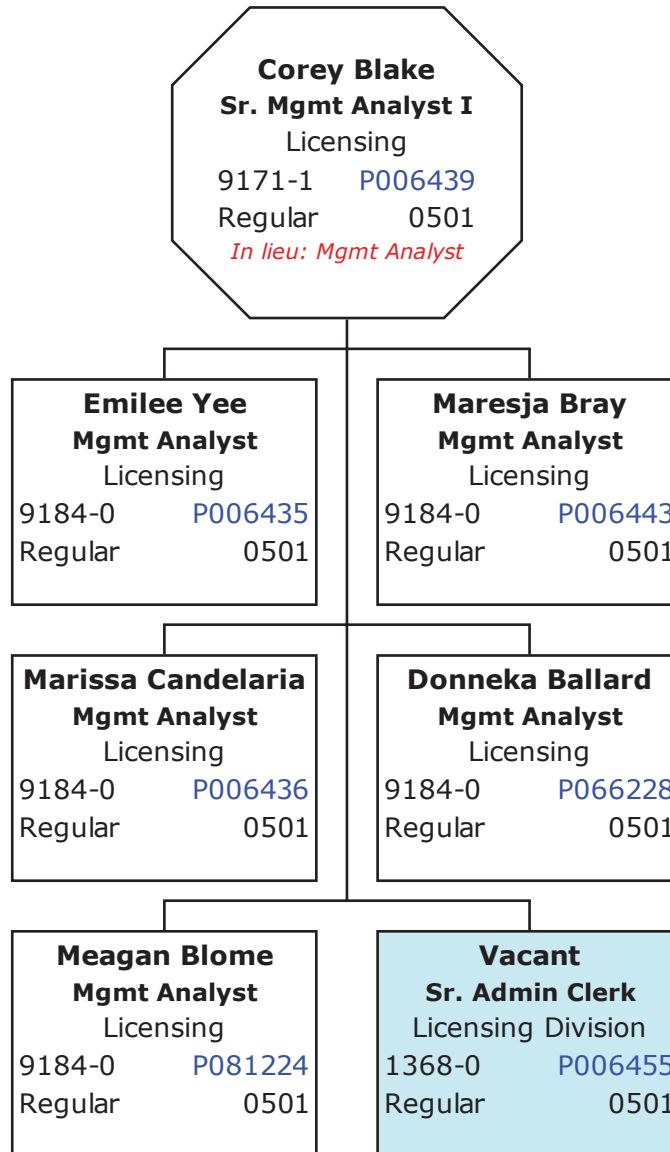
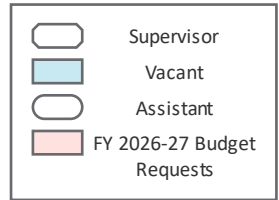
Provides review and processing services for commercial cannabis applications related to storefront retail, non-storefront retail, manufacturing, cultivation, distribution, delivery, and testing activities. This division also presents recommendations related to the storefront retail activity to the Cannabis Regulation Commission and regulates the operations of licensed commercial cannabis businesses in the City.

Personnel Costs = \$910,000

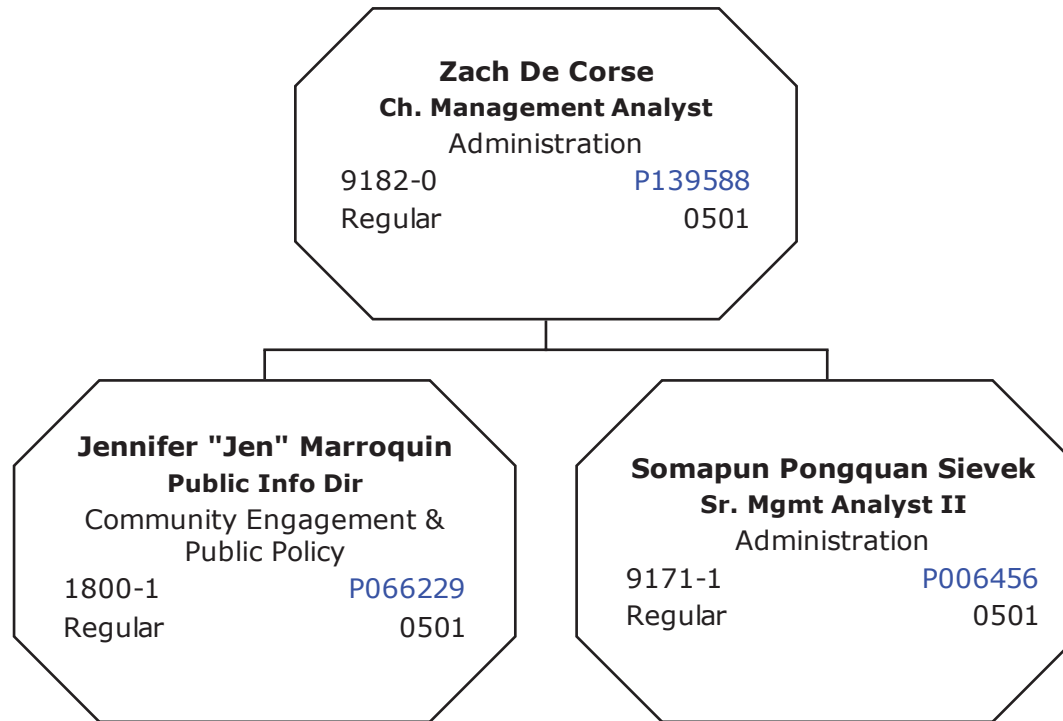
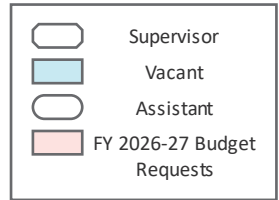
Contracting Costs = \$0



DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart



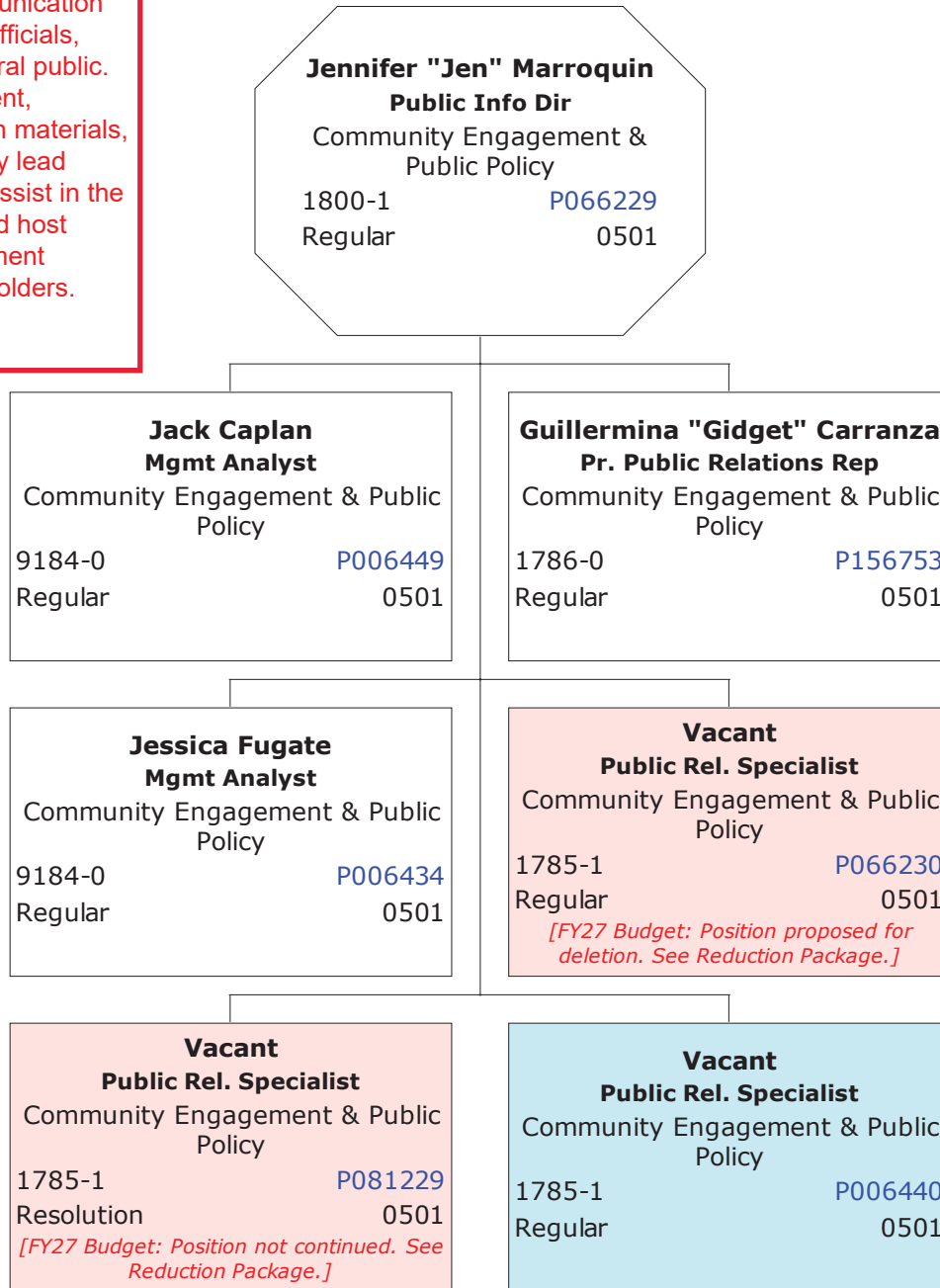
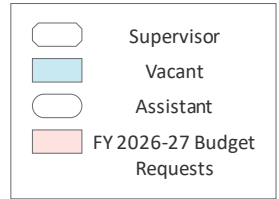
DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart



DEPARTMENT OF CANNABIS REGULATION

FY 2026-27 Proposed Budget Organizational Chart

Community Engagement & Public Policy:
 The Community Engagement & Public Policy team is responsible for fostering enhanced communication with key stakeholders, including elected officials, neighborhood associations, and the general public. The team generates a wide array of content, including videos, photography, and written materials, to support the Department's mission. They lead website and social media management, assist in the development of educational materials, and host technical assistance webinars on Department policies and live Q&A sessions for stakeholders.
Personnel Costs = \$395,000
Contracting Costs = \$0



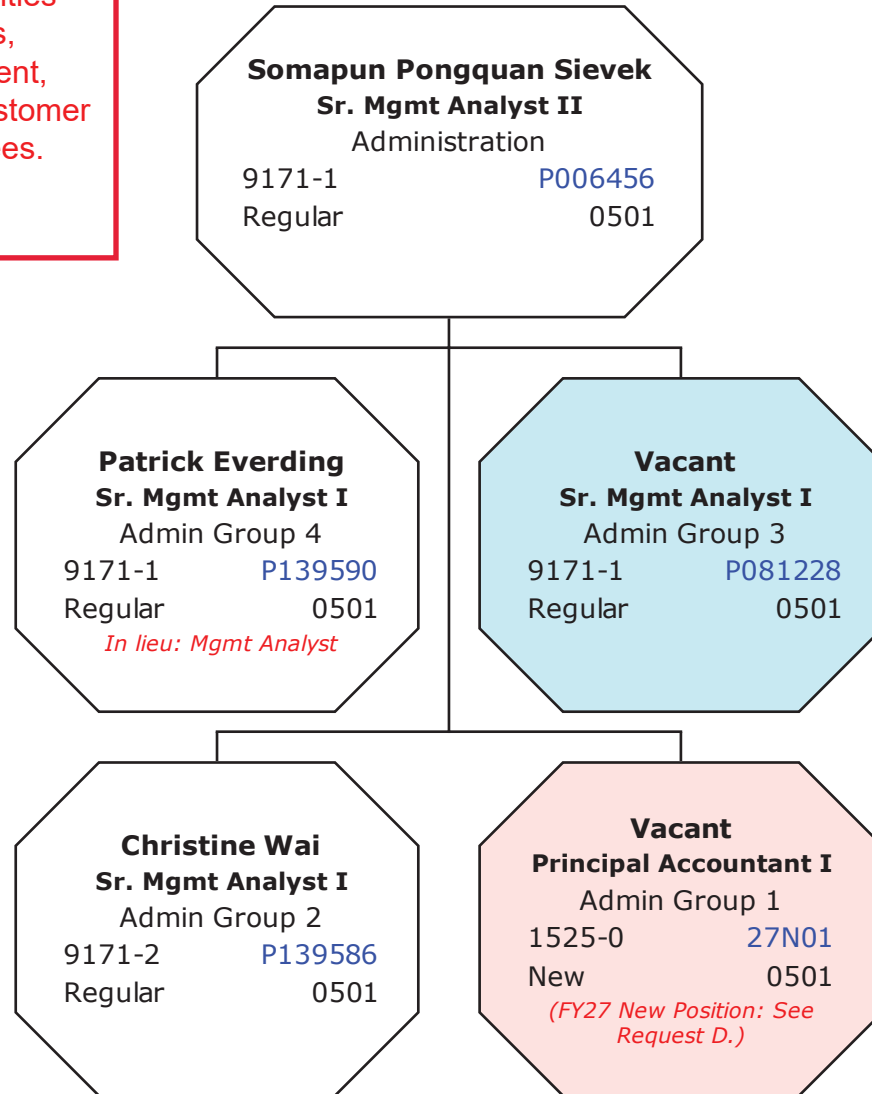
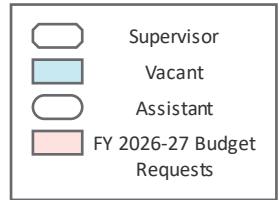
**DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart**

Administration Division:

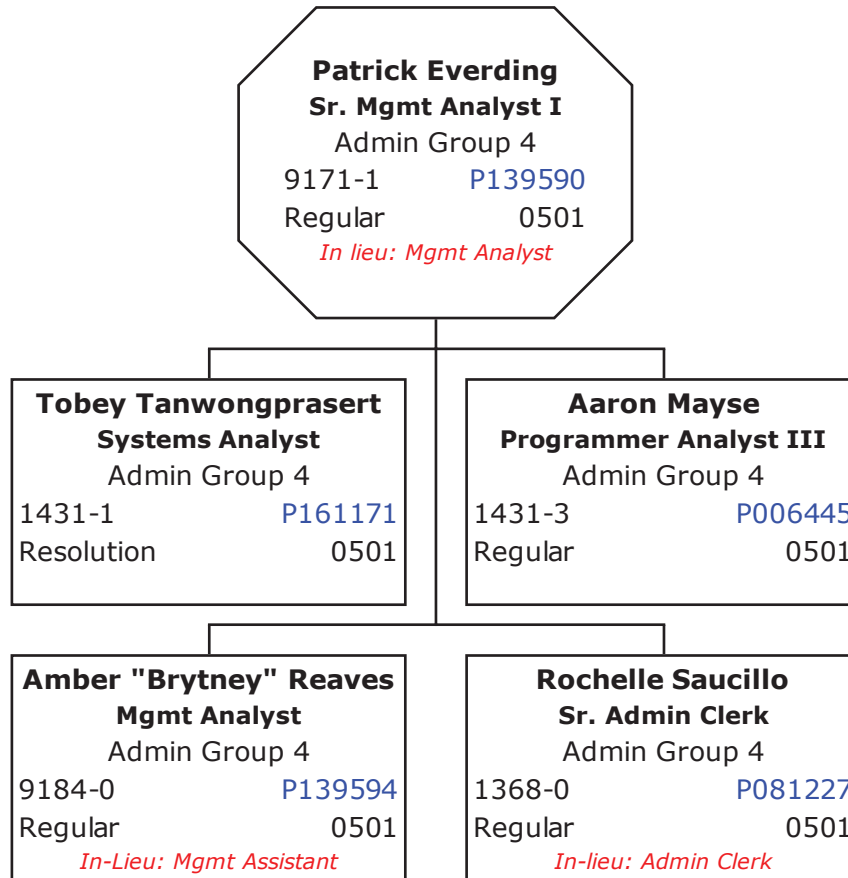
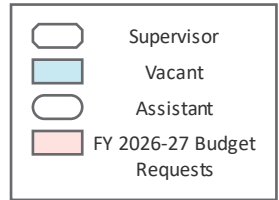
Provides administrative support services for DCR. This division provides comprehensive oversight of the budget, contracts, facilities management, financial services, grants, personnel services, records management, and systems support, and supports customer service for DCR applicants and licensees.

Personnel Costs = \$2,608,000

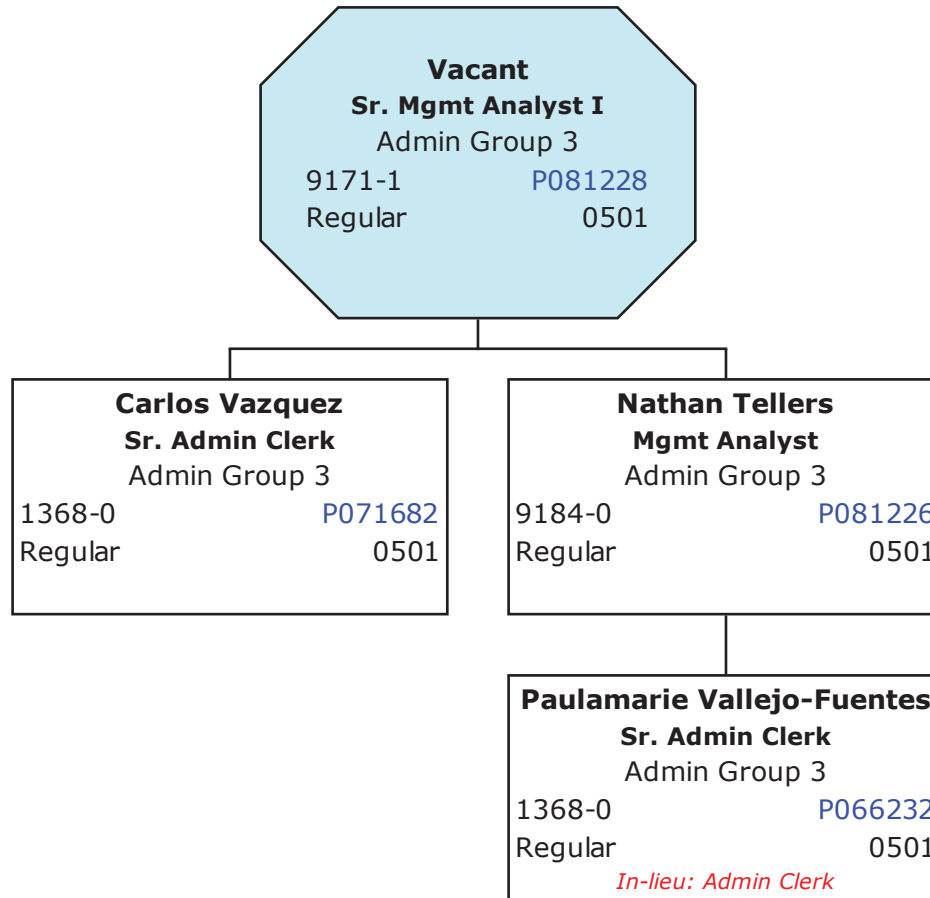
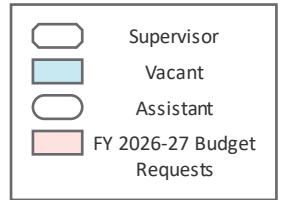
Contracting Costs = \$1,213,132



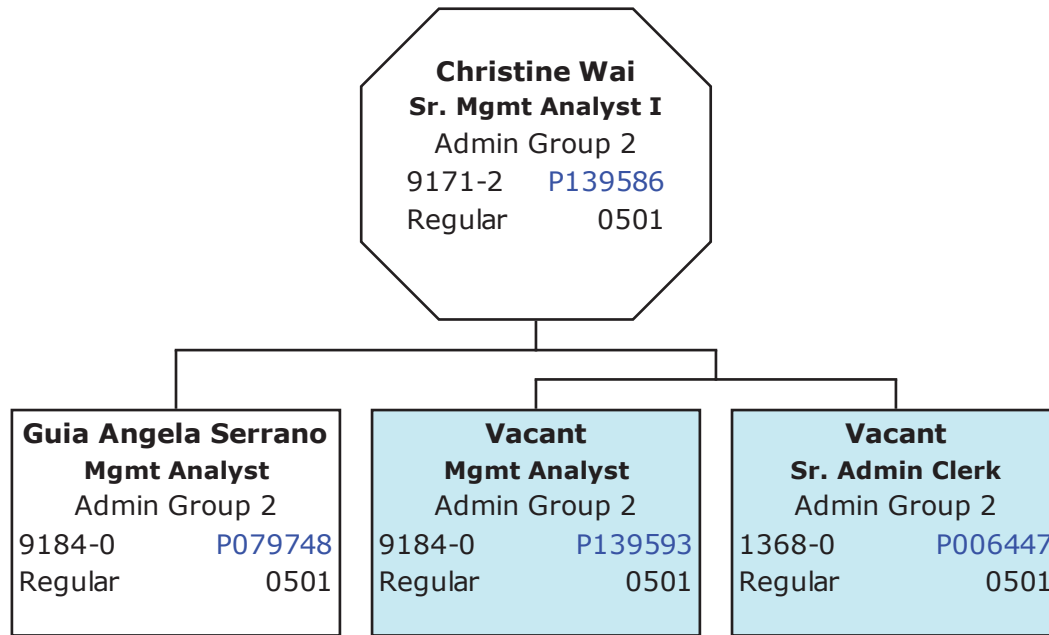
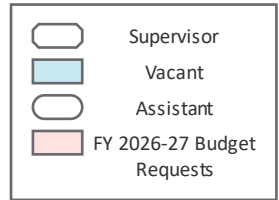
DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart



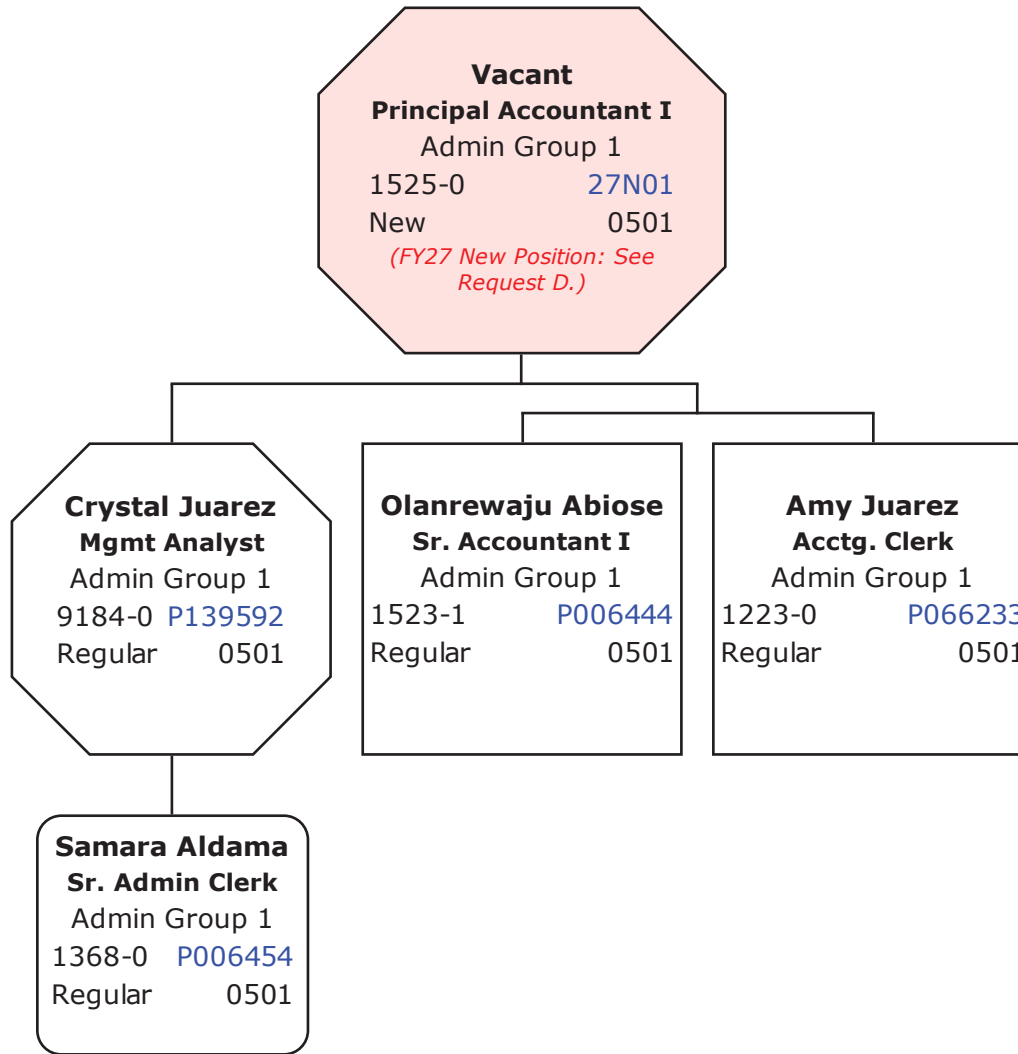
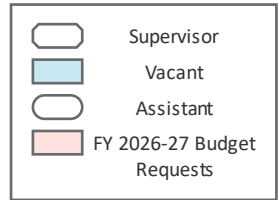
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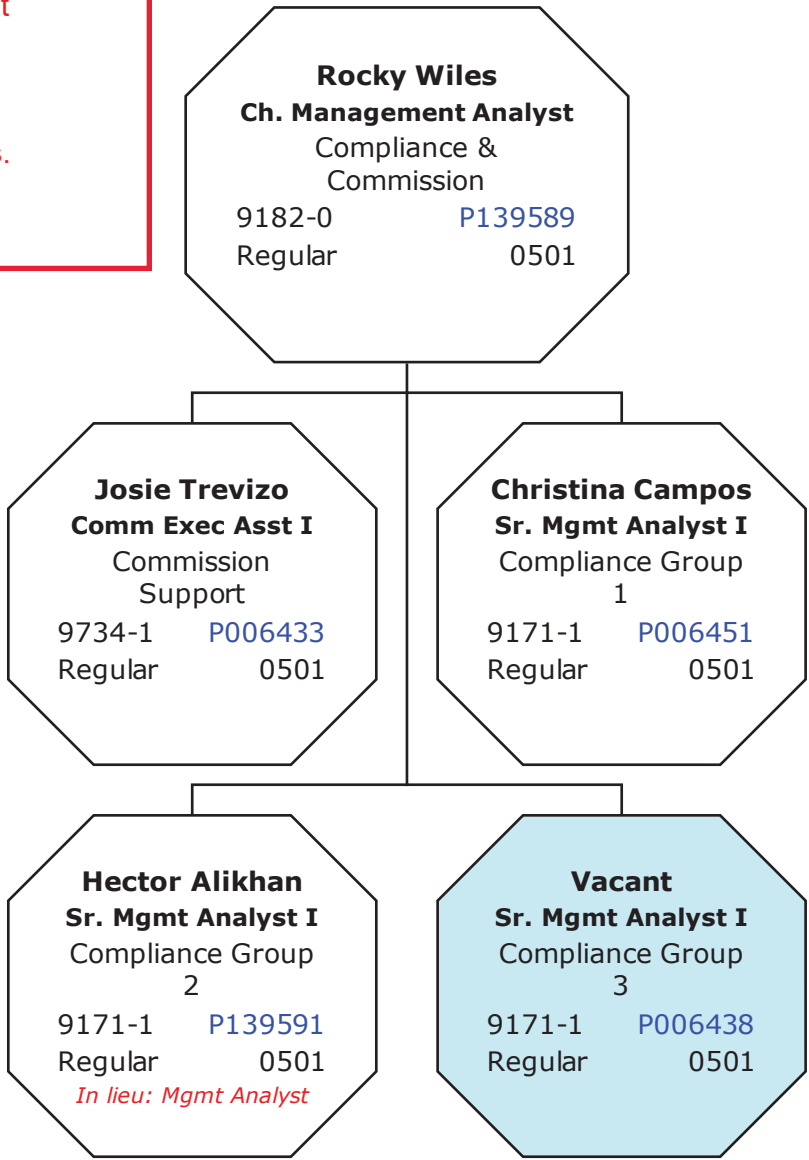
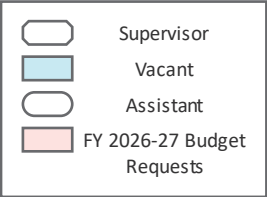
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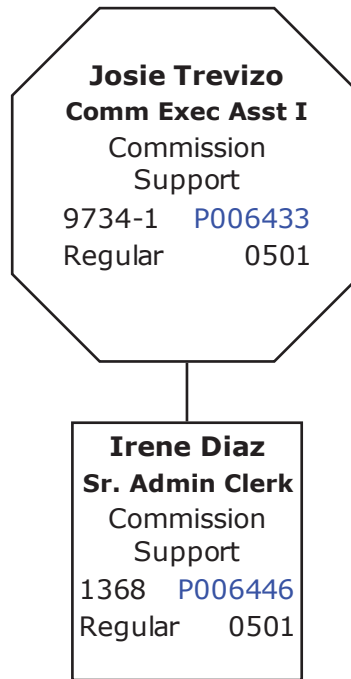
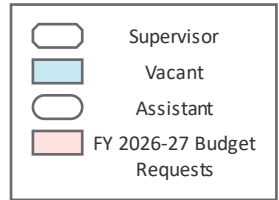
**DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart**

Compliance and Enforcement Division (CED):
Provides inspection and enforcement services for licensed commercial cannabis businesses to ensure regulatory oversight and promote public safety. CED also investigates complaints received about licensed operators and helps educate licensees about operational requirements.
Personnel Costs = \$1,597,000
Contracting Costs = \$0

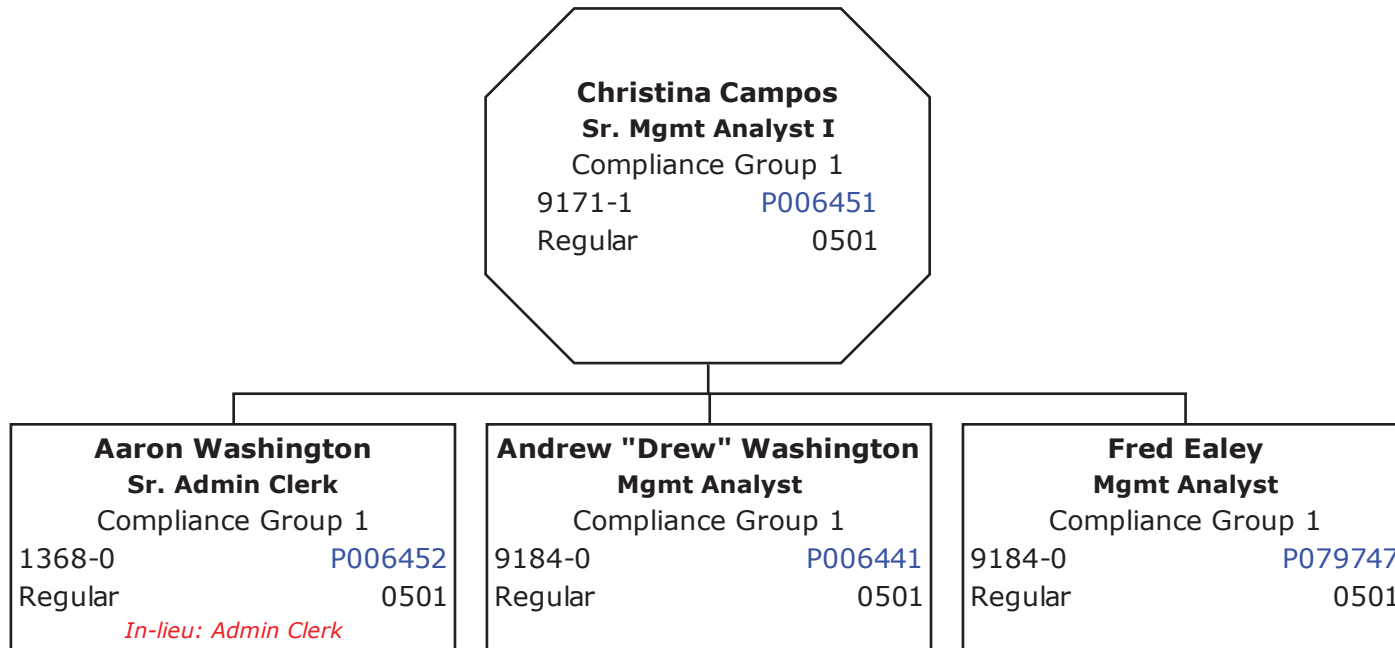
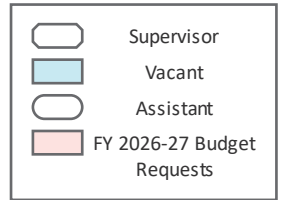
Commission Office:
Provides administrative support to the Cannabis Regulation Commission.
Personnel Costs = \$183,000
Contracting Costs = \$0



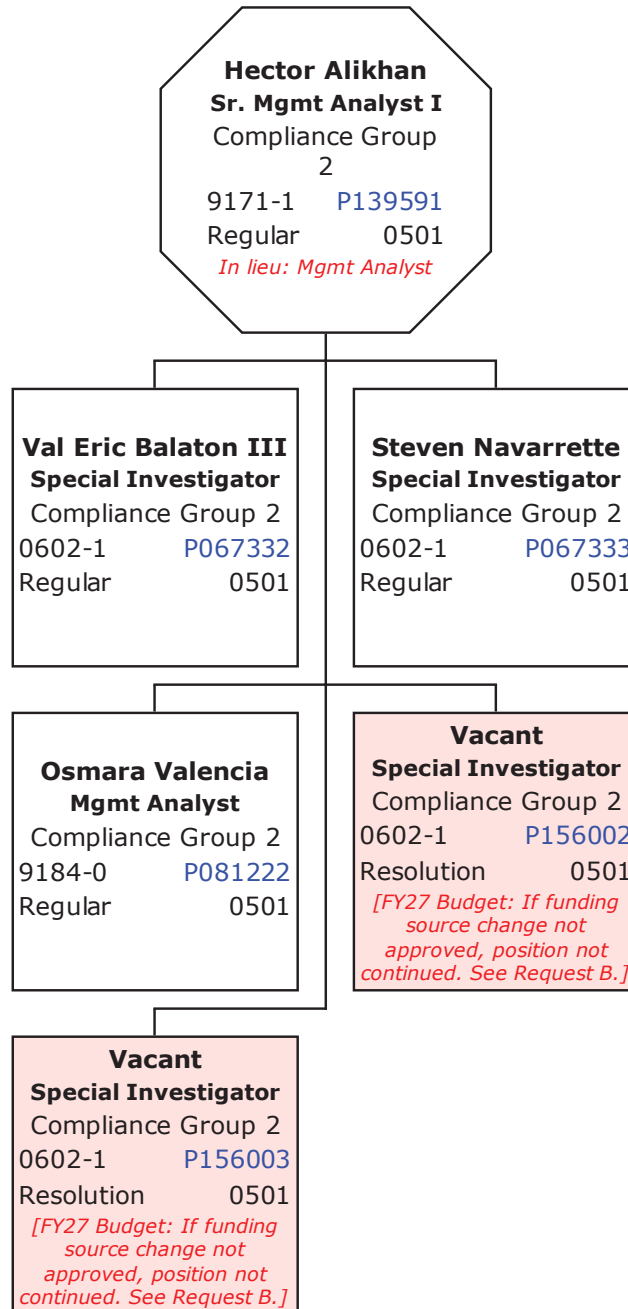
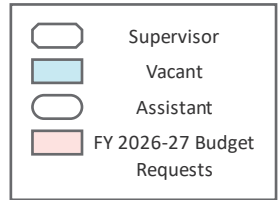
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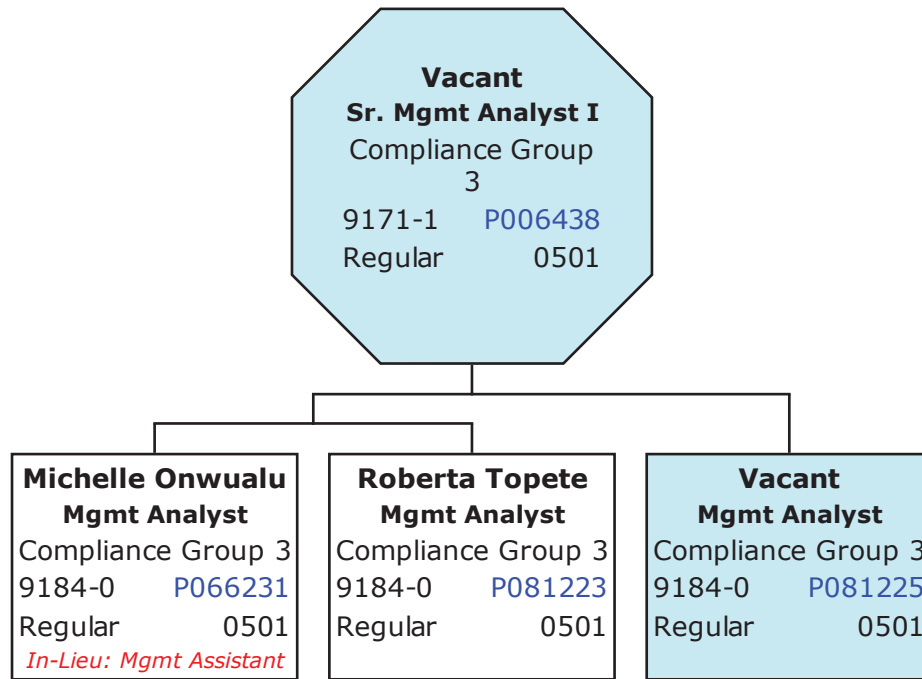
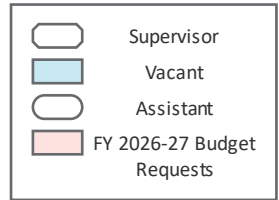
DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart



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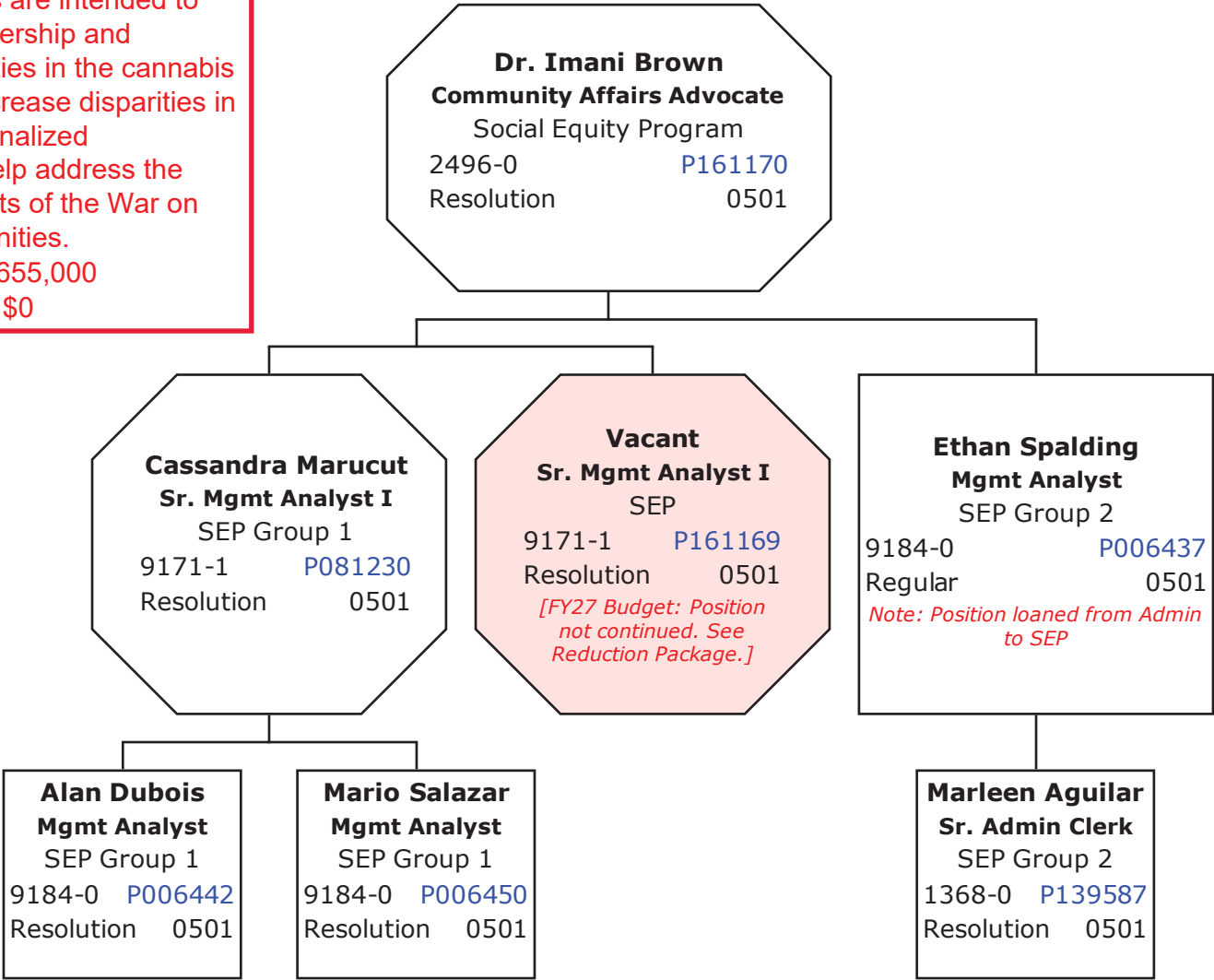
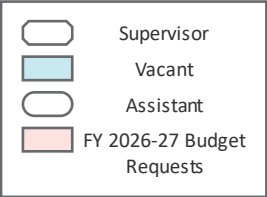


DEPARTMENT OF CANNABIS REGULATION
FY 2026-27 Proposed Budget Organizational Chart



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FY 2026-27 Proposed Budget Organizational Chart**

Social Equity Program:
Provides business, licensing, and compliance assistance services (BLC Program) to DCR applicants and licensees for commercial cannabis activities. These efforts are intended to promote equitable ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities, and to help address the disproportionate impacts of the War on Drugs in those communities.
Personnel Costs = \$655,000
Contracting Costs = \$0



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