

Date of Hearing: May 6, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 2537 (Chen) – As Amended April 15, 2026

Policy Committee: Business and Professions Vote: 19 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

**SUMMARY:**

Requires the Department of Cannabis Control (DCC) to prioritize its enforcement and disciplinary actions based on the risk of harm, as defined, develop a policy pursuant to those priorities, and include specified enforcement data in its annual activities report.

Specifically, this bill:

- 1) Defines “enforcement prioritization policy” as an enforcement framework that aligns the DCC’s regulatory oversight, investigations, inspections, and enforcement and disciplinary actions pursuant to Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) with the level of risk of harm.
- 2) Defines “minor violation” as conduct or conditions prohibited under MAUCRSA and applicable regulations that create a negligible risk of harm, including technical or administrative violations.
- 3) Defines “moderate violation” as conduct or conditions prohibited by MAUCRSA and applicable regulations that create a risk of harm, including the following:
  - a) Negligent failure to maintain accurate testing results, track and trace data, or required regulatory documentation.
  - b) Negligent violation of laws related to workplace safety or wage protection.
  - c) Manufacture, distribution, or sales of cannabis or cannabis products that are adulterated or misbranded in a manner unlikely to cause illness or bodily injury.
- 4) Defines “serious violation” as conduct or conditions prohibited by MAUCRSA and applicable regulations that create a significant risk of harm, including the following:
  - a) Unlicensed persons engaging in commercial cannabis activity.
  - b) Licensees diverting cannabis or cannabis products to unlicensed persons.

- c) Licensees inverting cannabis or cannabis products from unlicensed persons into the licensed market.
  - d) Licensees engaging in the manufacture, distribution, or sale of synthetic cannabinoids.
  - e) Licensees engaging in the distribution or sales of cannabis or cannabis products to children or that are marketed or packaged in a manner attractive to children.
  - f) Manufacture, distribution, or sales of cannabis or cannabis products that are adulterated or misbranded in a manner likely to cause illness or bodily injury.
  - g) Degradation of water resources, public lands, or wildlife habitat.
  - h) Reckless or repeated failure to maintain accurate testing results, track and trace data, or required regulatory documentation.
  - i) Reckless or repeated violation of laws related to workplace safety or wage protections.
- 5) Defines “risk of harm” as the likelihood of any of the following: interference with enforcement of any state law; false, misleading, or deceptive business practices; or adversely affecting the environment or the health, safety, or welfare of the public.
- 6) Requires the DCC to prioritize regulatory oversight, investigations, inspections, and enforcement and disciplinary actions in a manner consistent with an enforcement prioritization policy based on the following categories, which are serious, moderate, and minor violations.
- 7) Requires the DCC to adopt and publish an enforcement prioritization policy to implement the provisions of this bill that does, at a minimum, all of the following:
- a) Ensures personnel and resources are allocated in a manner consistent with the DCC’s enforcement prioritization.
  - b) Establishes the enforcement and disciplinary actions for each category of violation.
  - c) Provides for documentation of enforcement actions involving all violations.
- 8) Prohibits the DCC’s disciplinary framework or guidelines for disciplinary action from conflicting with the priorities established pursuant to the provisions of this bill.
- 9) Clarifies that the prioritization requirement does not limit the DCC’s authority to enforce MAUCRSA and applicable regulations.
- 10) Requires the DCC to include the following information in its annual report in relation to the violation severity categories established under this bill:
- a) The number and geographic distribution of: investigations opened and closed, inspections conducted, enforcement actions conducted, court petitions filed against unlicensed persons, and injunctions or other appropriate orders restraining unlicensed persons.

- b) The number, geographic distribution, and dollar amount of citations issued and collected against unlicensed persons.
- c) The number, geographic distribution, and dollar amount of civil penalties imposed and collected against unlicensed persons, persons aiding and abetting unlicensed commercial cannabis activity, and specified owners or managers of property used for unlicensed commercial cannabis activity.

#### **FISCAL EFFECT:**

DCC reports the data required for reporting pursuant to this bill is held in multiple technology systems that are not currently capable of cross-sharing information, and, in some cases, is not easily retrieved from those systems. Reporting this information would require modifications to these systems, new integrations of data, and coordination between multiple divisions. DCC estimates costs of approximately \$600,000 one-time to implement system changes and development; however, costs could increase depending on implementation approach, vendor requirements, and system design (Cannabis Control Fund). DCC also anticipates ongoing costs for maintenance, reporting, and staff support.

Additional cost pressures of an unknown amount may result as DCC notes that the prioritization structure of the bill seems to raise evidentiary standards for serious violations. According to DCC, the prioritization structure could also result in an increase in appeals, if appeals are filed on the grounds that the violation of law was not a “serious” violation.

#### **COMMENTS:**

- 1) **Purpose.** This bill is sponsored by the California Cannabis Operator’s Association. According to the author:

[This bill] strengthens California’s cannabis enforcement framework by directing regulators to prioritize violations that pose meaningful risks to public health, safety, and market integrity. It... requires [DCC] to implement a risk-based enforcement approach that focuses resources on the most serious violations while maintaining full regulatory authority over all violations.

- 2) **Background.** MAUCRSA, which incorporates prior cannabis laws, authorizes a person who obtains a state license under MAUCRSA to engage in commercial adult-use cannabis activity under that license and any applicable local ordinances. DCC is the state agency that licenses and regulates commercial cannabis activity.

Regulators and stakeholders continue to raise significant concerns over cannabis operations that operate outside of the regulatory scheme, thereby avoiding fees and taxes while competing with lawful businesses. They also create the potential for consumer and environmental harm, avoiding testing and agricultural requirements. Normally, licensing agencies regulate problematic licensed and unlicensed activity by imposing administrative penalties against an existing license (the strongest of which is revocation of the license), or by withholding the issuance of a license until any problems or deficiencies are addressed. However, unlicensed businesses that do not plan to obtain a license, have no incentive to comply with administrative penalties because the license is irrelevant to them.

For this reason, MAUCRSA includes various civil penalties that are sought in court and are not tied to the licensing process, and can be brought by the DCC, the Attorney General, or local public attorneys. There are individual penalties of up to three times the amount of the required license fee (which varies based on gross annual revenue, up to \$300,000 for a microbusiness with gross annual revenue of \$80,000,000). There are also civil penalties of up to \$30,000 per day of operation for aiding and abetting unlicensed cannabis activity, which means a person encouraged, aided, or facilitated, the activity (not just mere knowledge of the activity). The sponsor notes that another aim of this bill is to ensure DCC dedicates sufficient resources towards the deterrence and prosecution of unlicensed activity.

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