

ASSEMBLY THIRD READING

AB 2537 (Chen)

As Amended April 15, 2026

Majority vote

SUMMARY

Requires the Department of Cannabis Control (DCC) to 1) prioritize its enforcement and disciplinary actions under the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) based on the seriousness of the violation, 2) develop a policy pursuant to those priorities, and (3) include specified enforcement data points in its annual activities report.

Major Provisions

- 1) Specifies that the provisions of this bill may be cited as the "Cannabis Enforcement Accountability and Public Health Prioritization Act of 2026."
- 2) Defines "enforcement prioritization policy" as an enforcement framework that aligns the DCC's regulatory oversight, investigations, inspections, and enforcement and disciplinary actions pursuant to MAUCRSA with the level of risk of harm.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) Defines "risk of harm" as the likelihood of any of the following:
- a) Interference with enforcement of any state law.
 - b) False, misleading, or deceptive business practices.
 - c) Adversely affecting the environment or the health, safety, or welfare of the public.
- 7) 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 listed in order from highest to lowest:
- a) Serious violations.
 - b) Moderate violations.
 - c) Minor violations.
- 8) 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.
- 9) Prohibits the DCC's disciplinary framework or guidelines for disciplinary action from conflicting with the priorities established pursuant to the provisions of this bill.
- 10) Clarifies that the prioritization requirement does not limit the DCC's authority to enforce MAUCRSA and applicable regulations.
- 11) 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.
 - b) The number and geographic distribution of inspections conducted.

- c) The number and geographic distribution of enforcement actions conducted.
- d) The number and geographic distribution of court petitions filed against unlicensed persons.
- e) The number and geographic distribution of injunctions or other appropriate orders restraining unlicensed persons.
- f) The number, geographic distribution, and dollar amount of citations issued and collected against unlicensed persons.
- g) 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.

12) Makes various legislative findings and declarations.

COMMENTS

Background. The 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. The DCC is the state agency that licenses and regulates commercial cannabis activity. Specifically, the DCC regulates:

- 1) Growing of cannabis plants.
- 2) Manufacture of cannabis products.
- 3) Transportation and tracking of cannabis goods throughout the state.
- 4) Sale of cannabis goods.
- 5) Events where cannabis is sold or used.
- 6) Labeling of goods sold at retail.

Enforcement. The DCC's goal in enforcing the requirements of MAUCRSA is to protect the public from the harms that may result from unregulated commercial cannabis activity. If a licensee violates MAUCRSA or other relevant laws, MAUCRSA authorizes the DCC to take direct administrative or disciplinary action against the licensee. The administrative actions include warnings, citations, fines, and orders of abatement. The formal disciplinary actions include probation, suspension, and ultimately revocation. In addition, MAUCRSA authorizes the DCC to take actions against cannabis products that do not meet the requirements of MAUCRSA.

The DCC has further specified the enforcement process in its regulations and a document titled *Disciplinary Guidelines for all Commercial Cannabis Licenses* (amended July 2022) to inform licensees of the process and to standardize enforcement actions and outcomes.

Unlicensed Market. Regulators and stakeholders continue to raise significant concerns over cannabis operations that do business outside of the regulatory scheme. They can avoid 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, the difficulty in regulating unlicensed businesses that do not plan to obtain a license, including unlicensed cannabis businesses, is that there is no incentive to comply with the administrative penalties because the license is irrelevant to them.

As a result, MAUCRSA includes various civil penalties that are sought in court and are not tied to the licensing process, which 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 vary 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 the DCC dedicates sufficient resources towards the deterrence and prosecution of unlicensed activity.

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 the Department of Cannabis Control (DCC) to implement a risk-based enforcement approach that focuses resources on the most serious violations while maintaining full regulatory authority over all violations.

Arguments in Support

The scale of California's illicit market underscores the urgency of prioritizing enforcement resources where they will have the greatest impact. Recent analysis commissioned by the Department of Cannabis Control (DCC) indicates that the majority of cannabis consumed in California is still supplied by the illicit market.

In the California Cannabis Market Outlook, researchers estimate that only about 40% of cannabis consumed in California is supplied through the licensed market, while roughly 60% remains attributable to illicit production and sales. Of the approximately 3.8 million pounds of cannabis consumed annually in the state, only about 1.4 million pounds move through the licensed supply chain, leaving roughly 2.4 million pounds outside the regulated system.

This dynamic creates significant risks for public health, consumer safety, environmental compliance, and the viability of licensed businesses operating under California's rigorous regulatory framework.

At the same time, licensed operators across the state have reported increasing concern regarding the allocation of enforcement resources. Over the past year, many operators have experienced enforcement actions, often referred to by the Department as "compliance actions," that appear focused on minor or highly technical compliance issues, including the reopening of previously resolved matters, notices issued weeks after inspections that initially yielded no violations, and corrective actions based on factual inaccuracies or inconsequential

administrative issues. Addressing these matters often requires substantial time and financial resources for businesses already operating under significant financial strain.

In May 2025, a broad coalition representing a majority of California's licensed cannabis operators formally raised these concerns in correspondence to the DCC, urging the Department to reassess its compliance and enforcement strategies and refocus resources on the most pressing threats to public health and market integrity. These threats include diversion into and from the legal market, product safety and testing compliance, unlawful sales to minors, and illegal retail activity that undermines the state's regulated supply chain and associated tax revenue. When enforcement resources are finite, clear statutory direction regarding enforcement priorities becomes essential.

Arguments in Opposition

None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

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.

VOTES

ASM BUSINESS AND PROFESSIONS: 19-0-0

YES: Berman, Johnson, Addis, Ahrens, Alanis, Bains, Bauer-Kahan, Caloza, Chen, Elhawary, Hadwick, Haney, Hart, Irwin, Jackson, Lowenthal, Macedo, Nguyen, Pellerin

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

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