





Cannabis Regulatory Update



Roadmap

1. Overview of the initial rules
2. Basic application requirements
3. Municipal guidance
4. What businesses are doing to prepare
5. Expectations for neighborhoods with cannabis businesses
6. What's next



Overview of Initial Recreational Cannabis Rules



CRC Powers

The CRC has the power to:	The CRC <u>does not have</u> the power to:
establish the requirements for applying for a license	override or conflict with existing statutes
set fees	permit individuals to grow their own cannabis
enforce restrictions to protect public health and safety	choose where cannabis businesses operate
impose sanctions for businesses that violate the rules, including fines, suspension, or revocation of a license	require private businesses to work with or hire particular people



Initial Rules Focal Points

- Establish the personal-use (recreational) cannabis industry
- Emphasize social and economic *equity* and *safety*
- Outline the application process and fee structure for *transparency*
- Upholds *municipal authority*



CRC Application Focal Points

- ***No deadlines*** – continuous rolling application acceptance
- ***No limit*** on the number of licenses (except limit of 37 cultivation licenses prior to February 22, 2023, and other municipal limitations)
- ***Pass/Fail scoring*** – applications deemed complete will receive full points; incomplete applications will receive no points and be rejected with opportunity to cure and resubmit



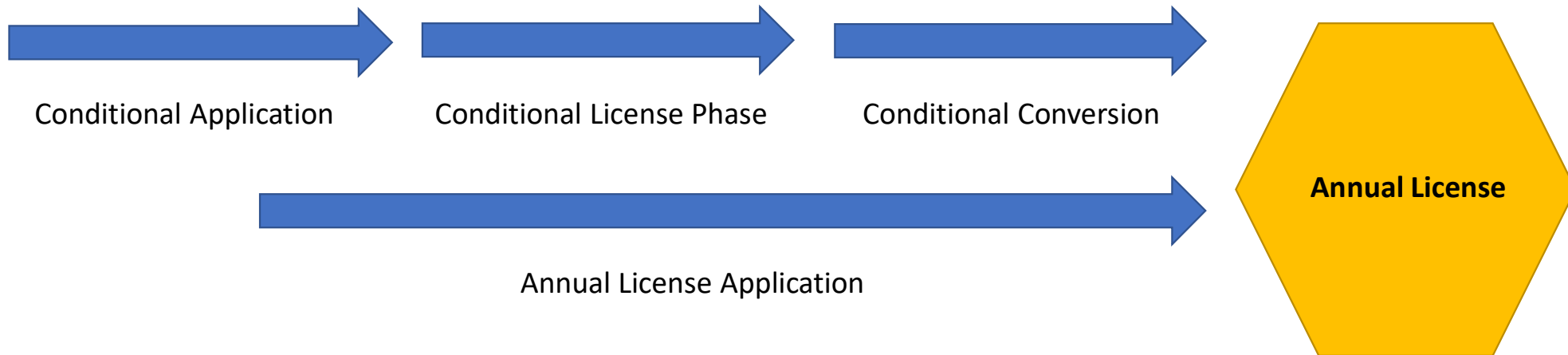
Types of Licenses

- Applicants can choose which type of license to apply for based on their readiness to begin cannabis operations.
- 2 types of licenses available:
 - **Conditional license** – provisional license pursuant an abbreviated application process that gives applicants more time to get things like property or municipal approval
 - **Annual license** – license that allows applicants to begin operations after passing CRC inspections



Types of Licenses

Two paths to full licensure for cannabis businesses:





Types of Cannabis Businesses

- Class 1 Cannabis Cultivator
- Class 2 Cannabis Manufacturer
- Class 3 Cannabis Wholesaler
- Class 4 Cannabis Distributor
- Class 5 Cannabis Retailer
- Class 6 Cannabis Delivery
- Testing Laboratory

3 possible designations
(applicants must show
supporting documentation):

- **Social Equity Business**
- **Diversely Owned Business**
- **Impact Zone Business**



Social Equity Business vs. Impact Zone Business

<u>Social Equity Businesses</u> (created by CRC rules)	<u>Impact Zone Businesses</u> (created by State legislation)
Residency and income requirements, <u>or</u>	Located in an impact zone (but the town must have less than 2 businesses of the same class), <u>or</u>
Majority ownership must have prior cannabis related convictions	Majority ownership lives/lived in an impact zone for 3+ years, <u>or</u>
	At least 25% of the business's employees live in an impact zone



Possible Business Sizes

- Cannabis businesses can choose to be categorized as any size and must adhere any applicable limitations
- 2 possible business sizes:
 - **Microbusiness** – 10 employees, 2,500 sqft of facility space, and 1,000 lbs. of cannabis per month
 - **Standard Business** – not subject to microbusiness limits (e.g., has more than 10 employees, more than 2,500 sqft of facility space)



Application Prioritization

Conditional and conditional-conversion applications *before* annual applications, then:

1. Social Equity Business Applicants
2. Diversely Owned Business Applicants
3. Impact Zone Business Applicants
4. Applicants with bonus points for collective bargaining agreements, project labor agreements, or residency
5. All other applicants

Microbusiness applications *before* standard business applications



CRC's application fees

Application Submission Fees	\$100 – \$400
Application Approval Fees	\$400 – \$1,600
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<i>Total Application Fees</i>	<i>\$500 – \$2,000</i>
Expanded Alternative Treatment Center Certification Fee	\$100,000 – \$1,000,000



CRC's licensing fees

<i>Annual Licensing Fees</i>	<i>Standard Business</i>	<i>Microbusiness</i>
Cultivator	\$5,000 – \$50,000	\$1,000
Manufacturer	\$20,000 – \$30,000	\$1,000
Retailer	\$10,000	\$1,000
Testing Lab	\$4,000	



Application Requirements



Required for all applications

- Completed and submitted online application
- Entity legal name
- Valid Business Registration Certificate from DRES
- Federal and State tax ID numbers
- Disclosure of all Persons of Interest and all Entities of Interest
- A proposed location and landlord contact information
- Personal history disclosures for all Persons of Interest and criminal history background check
- Business formation, MSA & FSA contracts



CRC Background Investigation Process

- Criminal history background check
- Review for statutory compliance:
 - Social equity business, impact zone business, diversely-owned business
 - Conditional applicants
 - Microbusiness applicants
 - Ownership limitations
- Probity



Probity

- At its discretion, the Commission may investigate and may conduct a probity review of the license applicant, its owners, principals, and related entities and their finances, ownership, and control structure.
- Parties to application that may require probity review:
 - Owners, passive investors, principals.
 - Board members.
 - Management services contractors and financial sources.
 - Vendor-contractors.



Probity – potential submissions

- ID, diplomas, professional licenses
- Individual tax returns, business tax returns, W-2 and 1099 forms
- Account statements for personal and business bank and investment accounts
- Real estate documents
- Business holdings
- Loans, liens, liabilities, litigation
- List of shareholders (entities)
- Business formation documents (entities)
- Board meeting minutes (entities)
- Financial reports (entities)
- History of fines and sanctions



Municipal access to application information

- The CRC will share applicant information with municipalities. Sensitive or trade secret information, however, may be withheld to protect the applicant.
- The CRC recommends municipal review focus on items that fall uniquely within municipal regulations/zoning: proposed hours of operation, waste collection, business signage, compliance with zoning restrictions, communication with municipal emergency services, etc.



Municipal Guidance



Municipal powers

Municipal authority covers:

- zoning regulations and approvals with reasonable fees
- number and kind of cannabis business licenses
- business operations like opening hours
- the ability to enact 2% transfer tax
- weighing in on CRC's selection process with preference
- passing and updating their ordinances



Municipal powers

Municipal authority does not include:

- restricting delivery of cannabis items into their city limits
- restricting transports of cannabis routed through their jurisdiction



Municipal licensing structures

Simplicity supports equity.

- **Administrative review & processing:** Avoid additional layers of red tape and use existing municipal systems & processes where possible.
- **Fees:** Not required, but if adopting fees, keep them reasonable. Use the CRC's fees as guidance.
- **Municipal cannabis offices:** Not required and likely unnecessary in many places. Use existing municipal systems & processes where possible. Think ABC.



Municipal licensing structures

- Municipalities can establish their own local equity programs. The CRC does not review or approve municipal equity programs.
- Remember that fees, application forms, required procedures, and business restrictions can all affect equity. Having no (or low) barriers to operating makes the market more accessible and easier to navigate for everyone.



Municipal licensing structures

Feel your municipality isn't ready for cannabis businesses?
Don't worry! Only 2 municipal items are required:

Providing municipal support for applicants

+

Providing proper zoning approval for applicants

Local fees and applications are not required. Don't scramble to create new processes.



Enforcement

- Municipalities are able to enforce municipal laws and zoning restrictions.
- The CRC's compliance team investigates complaints made against cannabis businesses. Investigations can include physical inspection and/or product collection.
- Each cannabis business will undergo inspections.
- Violators are subject to monetary penalties, license suspension, and/or license revocation.



How businesses should be preparing



Business preparations

- Learning the law and regulations
- Understanding the business classifications and priority designations
- Developing a business plan
- Deciding on a legal business structure
- Registering for Federal and State tax ID numbers
- Registering a business entity and securing a website domain
- Opening a business bank account
- Securing business insurance
- Scouting locations and requesting municipal/zoning approvals



Expectations for communities



What activities should communities expect to see?

Indoor/Outdoor cultivation

- Warehouse-like structures
- Currently, all medical cannabis cultivation is indoors
- Municipalities must have expressly allowed outdoor cultivation
- Any outdoor cultivation areas will be required to have additional security and/or physical barriers

Retail stores

- Expect to operate like other retail businesses
- Security and age-verification upon entry



Other expectations for communities

Odors/Environmental:

- Cannabis odors do not cause physical harm
- Mostly an issue for cultivation operations
- Businesses required to use odor mitigation strategies
- There are HVACR systems uniquely tailored to cannabis industry

Advertisements:

- Restrictions only allow marketing via media with adult audiences
- No billboards allowed
- No imagery related to children allowed
- No marketing directed towards cell phones unless app-specific



What's next?



What's next

Pre-Application Webinar: November 30, 2021

Class 1, Class 2 & Testing Lab Applications: December 15, 2021

Class 5 Retailer Applications: March 15, 2022



What's next

- Regulations on wholesale, distribution, and delivery licenses
- Regulations on consumption areas
- Continued partnership with municipalities to implement policies and assess outcomes