



149 Thompson Avenue South Suite 130 West Saint Paul, MN 55118

Wednesday, May 10, 2023

The Honorable Zach Stephenson

Via email: Rep.zack.stephenson@house.mn.gov

The Honorable Lindsey Port

Via email: Sen.Lindsey.port@senate.mn

Dear Senator Port, Representative Stephenson, and members of the Conference Committee:

On behalf of LeafLine Labs and Green Thumb Industries, I write today urging you to establish an adult-use cannabis program that fully incorporates the expertise and infrastructure of the existing medical cannabis licensees. Over the last seven years, in reliance on a license awarded by the State, LeafLine has invested over \$45 million in building and operationalizing a Minnesota-focused medical cannabis company, with millions more committed to our ongoing expansion construction. We hired over 150 Minnesotans and served tens of thousands of Minnesota patients. I would like to thank you for your tireless advocacy for HF 100 and SF 73 and, as you discuss these bills in committee, I urge you to allow the existing medical licensees to continue full operations in the adult-use program.

LeafLine has Been a Good Partner to the State for Over Seven Years

In 2014, a group of dedicated Minnesotans answered the state's call for medical cannabis license applications. In June of 2015, LeafLine was chosen as one of two licensees to partner with the state to establish a highly regulated Medical Cannabis program. The Minnesota based LeafLine team got to work, including by, hiring a team that now includes 150 union represented employees from in and around the municipalities of Cottage Grove, Hibbing, St Cloud, Wilmar, Mankato, St Paul, Eagan, and New Hope, identifying workable real estate locations, developing reliable, effective medical cannabis products, setting up distribution channels to deliver these safe, high-quality products to patients, investing tens of millions of dollars in building a Good Manufacturing Practices ("GMP") Certified¹ production facility and seven dispensaries, and collaborating with the Office of Medical Cannabis to the betterment of the program.

Full Inclusion of Medical Licensees is the Norm and the Only Way to Ensure Continuity of the Medical Program

LeafLine personally serves tens of thousands of patients annually and, across Minnesota, approximately forty thousand patients rely on the medical cannabis program as part of their healthcare. If the existing operators are excluded from full participation in a future adult-use and medical cannabis program, all of these forty thousand patients will need to find new healthcare solutions. The lab-tested, consistent, high-quality medicine they have relied on for years will no longer be available as continued operation will not be financially viable. Even under the current program, we have lost money keeping our doors open to patients. Despite more than \$45 million of capital investment into our Minnesota medical cannabis business, the business still

¹ GMP Certification requires annual third-party auditing to ensure the highest safety and quality standards in manufacturing.

has an accumulated earnings deficit of \$3.5 million. In 2022, the business reported a \$2 million loss and still paid more than \$700,000 in state taxes.

All 22 states that have transitioned their cannabis programs from medical only to adult-use and medical recognized that medical-only licenses of any type cannot survive in an adult-use market, and no state has excluded existing medical operators from full vertical participation in a subsequent adult-use program.² New York is the only state we are aware of that has, in its regulatory implementation (but, notably, not its law), chosen to attempt an adult-use market rollout without incorporating the experience and infrastructure of existing operators – by any objective measure, that is not going well for them. More than two years have passed since New York’s adult-use cannabis law was signed and fewer than a dozen licensed dispensaries have opened to consumers. There are, however, over 1500 unlicensed dispensaries operating in New York City alone (and countless others in every corner of the state) selling products of unknown origin and questionable safety.

Failure to Include Medical Licensees in Adult-Use Will Lead to a Loss of Union Jobs

LeafLine employs over 150 Minnesotans, many of whom are original staff and leadership, having been with the company for more than six years. We are a labor friendly company: we voluntarily entered into a Labor Peace Agreement with UFCW, the majority of our workforce is represented by the UFCW 1189, and we are actively engaged in the collective bargaining process for all seven of our operational dispensaries and our Cottage Grove production facility. As the adult-use cannabis program looms, our employees face uncertainty regarding their job security. They depend on these careers for their livelihood and failure to include all operating segments of our business in the adult-use cannabis program will be a direct blow to Leafline employees and their families.

Full Inclusion of Medical Licensees in Adult-Use Will Support Minnesota’s Adult-Use Priorities

The existing medical cannabis licensees are proven, well-regulated entities with experience in following state laws and regulations on security, diversion, and the development of safe, consistent products. We stand ready to assist in the immediate production and distribution of taxable adult-use products, while continuing to serve our medical patients. These states recognize that existing operators are critical partners to launch an exemplary adult-use program. Indeed, the inclusion of existing operators is the most direct path to achieving the stated priorities of the adult-use program:

- **Combatting the Illicit Market and Promoting Public Health and Safety:** Allowing existing state-licensed operators to start adult-use on day one is essential to combat the illicit market. Consumers benefit from knowing they are purchasing from established entities with a record of safety. Once adult-use legalization is announced and the public believes legal products are available for purchase, a regulated market needs to be available to reduce consumer confusion and reduce illicit sales of untested and unsafe products.³ For example, the failure of New York’s regulators to allow current operators to begin immediate sales, counter to legislative intent, has resulted in a proliferation of the

² The one exception to full vertical participation is Washington state, which allowed medical operators to convert to adult-use to the full extent of their licenses but prohibited vertical integration in its medical program to begin with.

³ <https://www.forbes.com/sites/dariosabaghi/2022/12/07/marijuana-sold-in-new-yorks-unlicensed-businesses-contain-harmful-contaminants-report-finds> (“Analyzed by a third-party lab, the test results show that 40% of marijuana products contain harmful contaminants, including E. coli, pesticides, heavy metals, and salmonella.”)

illicit market with thousands of unlicensed cannabis dispensaries opening across the state, including over 1,500 such stores in New York City alone. The state was forced to add an additional \$16 million to its 2023-2024 budget just to combat sales by these unlicensed operations.

- **Immediate Revenue to the State:** States with successful adult-use programs, including Illinois, New Jersey, Connecticut, Massachusetts, and, soon, Maryland have allowed for medical licensees to convert to adult-use through a simple application and conversion fee to jump start cannabis operations and state programming. Allowing existing medical operators to sell adult-use on day one provides immediate tax revenue and operational funds for investment into the state and the new adult-use program. Specifically, Illinois received over \$216 million in state tax revenues in its first year of legalization and New Jersey received over \$20 million in state tax revenues. Colorado's first full year of adult-use sales - a state with 30% of New York's population- generated approximately \$70 million in tax dollars. In contrast, New York collected approximately \$1.5 million in its first 3 months of adult-use sales.
- **Support to Social Equity Licensees:** Allowing existing operators to engage in adult-use sales for a conversion fee provides immediate revenue that can be used to support social equity programs. For example, existing licensees in Illinois had to pay a conversion fee of over \$300,000 in order to participate in the adult-use market on day one⁴. These fees were required to be used for supporting social equity. Laws passed in Maryland and New Jersey include a similar structure. Along these lines, Connecticut incentivized cannabis entities to back social equity applicants by entering into Equity Joint Ventures, resulting in one of the fastest social equity license roll out of any other market in our experience.
- **Prioritizing Patients:** Conversion of existing operators to adult-use from an existing medical program is the best way to meet the expectations of Minnesotans on day one and provide a seamless experience to patients and consumers. GTI has a track record of successfully prioritizing patients in adult-use rollout states like Illinois, New Jersey, Rhode Island, and Connecticut, and would do the same for Minnesota.

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Thank you for allowing us to address these critical issues. We hope that an engaged dialogue between the various stakeholders will lead to an industry-leading adult-use program that accomplishes the worthy objectives laid out in the bill.

Best Regards,



Sarah Lynch
Commercial General Manager, Minnesota

CC: Senator Oumou Verbeten, Senator Murphy, Senator Pha, Senator Rasmusson, Representative Hanson, Representative Kozlowski, Representative Hollins, Representative West.

⁴ 410 ILCS 705/15-15 (<https://www.ilga.gov/legislation/ilcs/fulltext.asp?DocName=041007050K15-15>)