

To: Economic Affairs interim committee
Re: SJ 31 Cannabis Market Study
From: MT Cannabis Industry Association (MTCIA)

November 17, 2021



Below (*italicized*) are the items SJ 31 identifies as issues to consider for a study of the marijuana industry and market in MT. Inserted below relevant items are suggestions that we think can contribute to effective committee monitoring and understanding of the new industry.

Most of our input is under (1), the less specific of the issues identified in SJ 31. Most of the items listed under (2) are straight-forward.

SJ 31

That the Legislative Council be requested to designate an appropriate interim committee or statutory committee, pursuant to section 5-5-217, MCA, or direct sufficient staff resources to:

(1) *evaluate the state's current marijuana program;*

- Is there adequate testing lab capacity to keep up with production and demand?
- Are prices competitive with the black market?
- Are supply chain issues impacting business? If so, how?
- Evaluate supply/demand management. This would entail knowing:
 - What is our inventory at the onset of adult use sales? What does the tracking system, METRC, show as product sold a quarter later? Does stock to sales ratios make sense? This helps evaluate if the industry is “tight” or if there is diversion or inversion.
 - How much square footage is licensed? Licensed square footage provides information about the capacity of the market. In November of 2020, there was 448,600 sq ft licensed. Of course, it’s probably higher now. As we move forward, how much does that increase each quarter? This information enables the committee to understand the expansion dynamics of the market.
A year ago, there were 58 micro tiers and 96 tier 1's (out of 243 licenses total). That has probably shifted around. But if 20 of those licenses, let's say tier 1's, applied to be tier 5 in Jan., it could take 60 days for DOR to approve it and 3 months before an end product on a shelf resulting from the expansion. Thus, in 5 months, 20,000 sq ft (20 x 1000) could become 200,000 sq ft (20 x 5000), a 45% increase.

- Evaluate and monitor unchecked loopholes.

This enables the committee to evaluate whether the market structure is functioning as it was carefully designed to do. For example, a loophole identified in HB 701 would allow for a business licensed as a dispensary to function as a broker, perhaps never making a single retail sale. For the study, the committee could monitor to what degree are B2B transactions not cultivating, manufacturing, or retail sales, but brokering/clearing houses/middlemen?

We already know there will be businesses licensed as one thing (dispensary) but functioning as something else (broker). Thus, licensed, but unregulated.

In markets, a “middleman” may serve to facilitate some businesses, but also has the ability to manipulate the market and prices.

The study can include how loopholes are being utilized within the market. Inspectors should be able to identify if businesses are functioning as what they are licensed for vs. functioning as a business model not regulated under the license under which it is operating. In addition, there may be other emerging models that involve the movement of cannabis and money in the system.

(2) review the effects that legalization of recreational marijuana has had on Montana, including but not limited to the effects on:

(a) state and local government tax collections; and

Tax collections will go up.

(b) recidivism, addiction, and expungements;

(3) monitor changes in federal policy that could affect recreational marijuana laws in the states; and

(4) evaluate the potential benefits and drawbacks of continuing the medical marijuana system in Montana.

Specify the potential benefits and drawbacks to specific parties:

- Medical cardholders (benefit by continuing)
- DOR staff, regulation administration (?)
- Parties interested in increasing taxes/revenue (drawback to continuing)