



Article 11 of the FY22 Proposed Budget

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Committees on Finance and Judiciary
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FY22 Adult-Use Legalization: Guiding Principles

The Governor's proposal rests on the following guiding principles:

- ▶ Adult use retailers will be **tightly regulated** and **privately run**.
- ▶ Intentional **incorporation of principles of equity** throughout.
- ▶ Our **tax structure will be competitive** with neighboring states and share a substantial chunk of revenue with local governments.
- ▶ Maintenance of **local control** over cannabis-related activity.
- ▶ A strong emphasis on **public health and safety**, sharing resources with state health and law enforcement agencies while prohibiting consumption among minors through a strong regulatory approach.



FY22 Adult-Use Legalization: Licensing

| Domain | Key Provisions |
|------------------|---|
| Licensing | <ul style="list-style-type: none">• Retail sales and recreational possession protections effective April 1, 2022• Three-year phased rollout of retail licenses (25 per year, 5 of which will be reserved for qualifying minority- or women-owned businesses) with market demand study to determine future license availability years 4 and onward• Lottery-based allocation of retail licenses on an annual basis, with MBE retail licenses awarded first in each year• Existing compassion centers will be eligible for an additional hybrid adult-use retail license by right, provided they continue to service the medical market. Note that these 9 licenses will be in addition to the 25 new retail licenses awarded in year 1.• New ancillary licenses created and awarded at DBR's discretion (craft cultivation, transportation, manufacturing/processing) with 50% of these awarded to qualifying MBE applicants• Extension of the existing moratorium on new cultivation licenses (not including the new craft cultivation licenses mentioned above) |



A “Controlled Rollout” of Adult-Use Retail Licenses

Guiding Principles: We can’t perfectly predict how many adult use retail licenses the Rhode Island market will ultimately bear. But based on the experience of other states, we believe a **controlled, annual rollout of 25 retail licenses** for **each of the first three** years of the program will provide clearer data on market conditions while safeguarding public health and safety.

| Year beginning | New Retail Licenses [^] | New Cultivator Licenses* |
|----------------|----------------------------------|--------------------------|
| April 2022 | 25 | 0 |
| April 2023 | 25 | 0 |
| April 2024 | 25 | 0 |
| April 2025 | TBD based on market demand study | |

[^]In addition to the 9 “by right” hybrid retail licenses issued to licensed CCs

**Not including new craft cultivator licenses discussed on following slide*



A Licensing Framework Anchored in Equitable Access

The new retail storefronts will represent major economic opportunity for entrepreneurs traditionally excluded from the legal cannabis market. We directly address this by setting aside **20% of annually-awarded retail licenses** and **50% of new license types** for **qualifying MBE* applicants**.

| Licensing Round | Year | 1 | 2 | 3 |
|-----------------|--|----|----|----|
| | New retail licenses | 25 | 25 | 25 |
| 1 | MBE applicant lottery | 5 | 5 | 5 |
| 2 | General applicant lottery | 20 | 20 | 20 |
| | Existing compassion center "hybrid license" issuance | 9 | 0 | 0 |

Priority Order

- *This 20% set-aside is in proportion with the non-white population of Rhode Island (21.3%).*
- *Note that this concept relies on existing regulations defining minority business enterprises in RI, and also includes women-owned businesses.*

New license types with 50% MBE set-aside, issued on a rolling basis at DBR discretion

- Craft cultivation (<1,000SF)
- Transportation
- Manufacturing/ processing



FY22 Adult-Use Legalization: Local Control

| Domain | Key Provisions |
|----------------------|--|
| Local Control | <ul style="list-style-type: none">• Municipalities may place a temporary moratorium on cannabis licenses effective upon passage but not to extend beyond November 2, 2021.• After November 2, 2021, bans on cannabis licenses may be implemented by way of local referendum, with accompanying ordinances to be adopted by April 1, 2022• Municipalities may, by land use or zoning ordinance, restrict the location and siting of cannabis licensees• Municipalities may assess local impact fees to recoup costs of increased traffic, infrastructure demands, etc. |



FY22 Adult-Use Legalization: Health and Health Equity

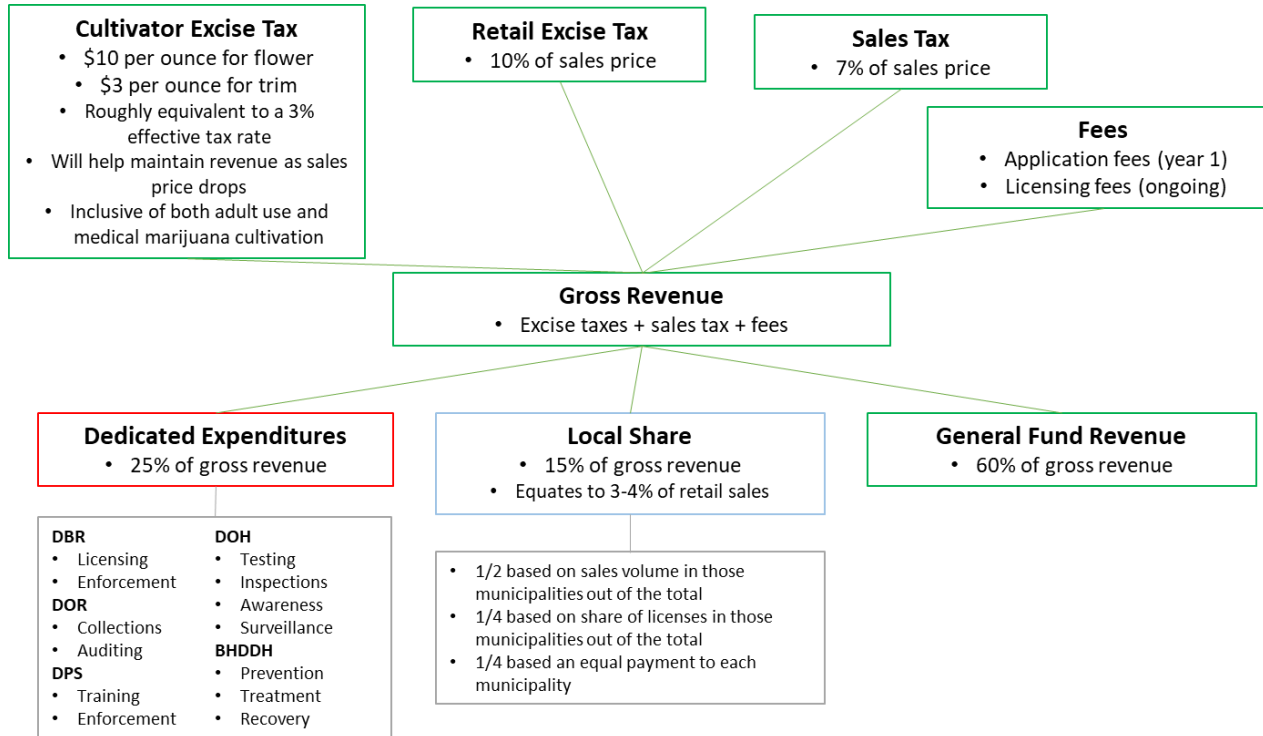
| Domain | Key Provisions |
|--|---|
| Public Health and Health Equity | <ul style="list-style-type: none">• \$1.1M of gross revenues reinvested in Rhode Island's health equity zone (HEZ) collaboratives to continue to build out community-based health initiatives and infrastructure• \$1.0M of gross revenues invested in RIDOH, BHDDH, and EOHHS to enhance treatment, prevention, and surveillance capacity• Creates the Governor's Cannabis Reinvestment Task Force, which will include a number of Cabinet members and community stakeholders and be charged with making recommendations for long-term investment of cannabis revenue in job training, small business capital access, housing, and community development, among other things |



FY22 Adult-Use Legalization: Public Safety

| Domain | Key Provisions |
|---------------|--|
| Public Safety | <ul style="list-style-type: none">• Across-the-board prohibition of any adult-use cannabis activity for minors under the age of 21• Updates existing DUI statutes to account for cannabis legalization• Invests \$900K in state and local law enforcement capacity building, with \$400K invested in state police drug-recognition training and an additional \$500K made available to local law enforcement agencies in grants through DPS• Across-the-board prohibition on home grow outside existing allowances in the MMP |

Revenue Sharing Framework





Revenue Estimate

| Component | FY22 (April 2022 start) | FY23 (full year) | Key Components |
|---------------------------------|-------------------------|-----------------------|---|
| Weight-based excise tax | \$2.9 million | \$9.3 million | \$10 per ounce of flower / \$3 per ounce of trim, applied at the wholesale level |
| Sales tax | \$1.8 million | \$6.7 million | 7% of sale price |
| Retail excise tax | \$2.4 million | \$9.6 million | 10% of sale price |
| Fees | \$3.8 million | \$2.7 million | Application fees boost FY22 revenue |
| Total revenue | \$10.8 million | \$28.2 million | |
| Municipal share | \$1.6 million | \$4.2 million | 15% of total revenue |
| State expenditure share | \$2.7 million | \$7.1 million | 25% of total revenue |
| General fund share | \$6.5 million | \$16.9 million | 60% of total revenue |
| Additional year 1 expenditures | \$4.8 million | n/a | Partial year of sales in FY22 means additional resources needed beyond 25% allocation |
| Net general fund revenue | \$1.7 million | \$16.9 million | |



Expenditure Estimate, FY22

| Agency | Cost | New FTEs | Key Components |
|---------------------|----------------------|-----------|--|
| DBR | \$3.7 million | 11 | <ul style="list-style-type: none">• Additional inspection and enforcement staff• Seed-to-sale tracking system startup costs, expected to decrease in outyears |
| DOR | \$0.8 million | 4 | <ul style="list-style-type: none">• Revenue and investigation staff• One-time buildout to handle cash payments |
| DPS | \$0.8 million | 3 | <ul style="list-style-type: none">• 3 new troopers in the Traffic Safety Unit• Grants to local police departments |
| RIDOH | \$0.4 million | 2 | <ul style="list-style-type: none">• Public health promotion and research staff• Needs expected to grow in the outyears |
| BHDDH | \$0.4 million | 2 | <ul style="list-style-type: none">• Program administrators• Initial prevention and treatment funds |
| EOHHS | \$0.3 million | 0 | <ul style="list-style-type: none">• Supports public health data systems |
| Health Equity Zones | \$1.1 million | 0 | <ul style="list-style-type: none">• \$100,000 to each of the 11 HEZs• Likely to increase in the outyears |
| Total | \$7.5 million | 22 | |



Questions?

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