

BEFORE THE OHIO HOUSE OF REPRESENTATIVES
House Finance Committee

Testimony of Geoffrey Korff
CEO and Founder of Galenas LLC

OFFERED AS AN INTERESTED PARTY TO
HOUSE BILL 354

December 12th, 2023

Chairman Edwards, Vice Chairman LaRe, Ranking Member Sweeney, and honorable members of this committee, thank you for allowing me to testify here today as an Interested Party to House Bill 354 (HB 354). My name is Geoffrey Korff and I am the founder and CEO of Galenas LLC. Galenas is a Level II medical marijuana cultivator in Akron, and we own no other licenses in the state. Our cultivation facility is located at 1956 South Main Street, Akron, Ohio, and we have been operating in that location since April of 2019. We currently employ 22 full-time equivalent employees.

By way of background, I am a licensed attorney in Ohio, having graduated from The Ohio State University in 2005 and Syracuse University College of Law in 2008. I returned to Ohio, passed the bar exam here, and have been an active member of the Ohio State Bar in good standing for the past 14 years. In addition to practicing law, I also worked in private industry for several years. Prior to my

entry into medical marijuana I was the president of a steel and iron foundry with an associated machining division producing several product lines. I left my previous employment 2018 after Galenas was awarded a cultivation license in the initial round of licensing for Ohio's medical marijuana program. My full-time role is now with Galenas as CEO.

I am here today offering testimony on behalf of a majority of the Level II Cultivation Licensees in Ohio. This includes my company, Galenas, as well as Wellspring Fields in Ravenna, Fire Rock in Akron, Ascension Biomedical in Oberlin, Ohio Clean Leaf in Dayton, Ancient Roots in Wilmington, Farkas Farms in Grafton, OhiGrow in Toledo, Pure OH of East Palestine, and Paragon of Tipp City.

To begin, we are substantially more supportive of HB 354 than we were of HB 86, which we opposed in the Senate. The Senate's bill represented a radical departure from the language of Issue 2 that was passed by 57% of Ohio voters when they came out to vote less than a month ago. This bill, HB 354, is an improvement over HB 86 in that it maintains the majority of the critical provisions that were approved by Ohio voters via Issue 2. It maintains much of the commercial framework as well as individual rights. However, this is not to say that HB 86 did not make

some improvements as well. We fully support expediting the start of adult-use sales from existing medical dispensaries, as prolonging the process will only support the black market and push purchases to Michigan. From that standpoint, we would be supportive of initiating an adult-use market within 90 days from passage of a bill, as is written into HB 86.

With all that said however, there are still some areas that we believe need to be addressed, which is why we are approaching this issue as an Interested Party rather than supporters.

As Level 2 cultivators, we are the smallest of the producers in the state of Ohio. We started out with 3,000 square feet of cultivation space, and many of us are still operating within that footprint. We have had a size and capacity disadvantage for the entirety of the last five years of Ohio's medical program, and that disadvantage is carried over into the adult-use program through Issue 2, as well as in the current version of HB 354. Under this bill, Level 2 cultivators would be limited to 15,000 square feet of cultivation space, and would only be permitted to expand with leave from the Division of Marijuana Control within the Department of Commerce.

While this represents an improvement, it is really a drop in the bucket compared to

the total capacity that will be available in the Ohio market if the language of HB 354 were to be enacted as written.

To set the stage for this discussion, the state of the market must first be understood. There are currently 37 cultivators in Ohio, 23 Level 1, and 14 Level 2. Along with the Level 3 licenses contemplated by this bill, a fully expanded adult-use market in Ohio would consist of 2,710,000 square feet under the current language of HB 354, of which Level 2 license holders would represent a mere 7% of the market, or 210,000 square feet. When the medical program was originally set up, with 12 Level 1 licenses and 12 Level 2 licenses, that number was originally 12% of the market. As you can see, we have lost significant ground in the marketplace, despite the fact that the stated goal I have heard from many legislators is for a more competitive adult-use market.

Thus, as our first request for changes to be considered for HB 354, and in the interest of establishing a truly competitive market where small, locally owned businesses can compete with the largest and most well capitalized businesses, we respectfully submit that a more appropriate cultivation capacity for Level 2 licenses holders is 25,000 square feet, as opposed to 15,000 which is currently in

this bill. This amount would get us back to the 12% of the market that was originally contemplated when the medical program was set up in 2017.

Additionally, HB 354 contemplates an award of dispensary licenses as well. My current reading of the bill, as well as Issue 2, suggests that after all licenses have been allocated, that we will end up with a dispensary count of approximately 328 locations. I would argue that this is a fairly modest number for a state with a population the size of Ohio. It is roughly half of what Michigan has with a slightly smaller population, it is about 60% of what the state of Washington has with a markedly smaller population, and it is about half of what Florida's medical market has. Florida has almost double the people of course, but again, they are still a medical only state and not yet adult use.

By my count, the current version of HB 354 would authorize and award the following licenses: All Level 1 cultivators would receive 69 new retail licenses in total; Level 2 cultivators would receive 14 new retail licenses in total; all current dispensary owners that do not own any other license would receive 64 new licenses in total; and Social Equity individuals or groups would receive 50 new dispensary licenses. As the old saying goes, one of these things is not like the other. Of the

total of 197 new licenses contemplated by HB 354, only 14 would go to Level 2 license holders.

Now, you may be asking – why should anyone automatically get licenses? It is a very good question, and one that I am happy to answer. In an adult use market, if the goal is to bring the marketplace online as quickly and compliantly as possible so as to combat the black market, you need competent operators. There is nowhere better to go than the current operators. However, additionally, Level 2 cultivators should receive some additional consideration in light of the fact that our place in the current market is so small, only a small minority of us own retail licenses currently. We cannot marshal the same capital as some of the larger groups in this market, so purchasing licenses is exceptionally difficult if not impossible.

Furthermore, we will always be at a competitive disadvantage in any licensing process relative to the largest businesses, again because we are simply much more poorly capitalized than they, and we cannot afford the same lawyers and consultants that they can. And finally, one single dispensary just simply is not enough to keep a cultivator relevant in the marketplace, as it makes you exceptionally vulnerable to regional variation in the state market, as well as making it impossible to hope to sell a significant amount of your own product through your own shelves with only one storefront.

Please understand, we are not advocating to remove any dispensaries from any other groups. We have good working relationships with the Level 1 groups, and we believe that the social equity licenses contemplated by Issue 2 are valuable and warranted. We are simply advocating for ourselves and attempting to explain the dynamics of a complicated marketplace. If nothing changes however, we will remain outnumbered and outgunned on the retail front.

Thus, as our second request for changes for HB 354, we respectfully request that Level 2 cultivators be granted 2 dispensaries, not merely 1. This still does not level the playing field for us, as we will nonetheless still be operating at a disadvantage. It does however give us a fighting chance to succeed.

Additionally, as this committee has heard and as the Senate also heard, there are a number of independent processors also seeking consideration for cultivation square footage, so that they have the ability to supply themselves with biomass in an adult-use market. We will concede that there may very well be a limitation on the supply of biomass in an adult-use market, however we ask that you consider the impact of giving processors a cultivation license of some kind. If all processors that want to cultivate suddenly have the ability to supply themselves with biomass,

it necessarily means that the market for biomass will dry up, and those Level 2's without processing licenses will lose an avenue to sell our own biomass. By solving one problem, you will have inadvertently created another. **Thus, if you are contemplating giving independent processors some ability to cultivate in order to feed themselves, you must absolutely also give cultivators without a processing license the ability to process their own biomass as well**, otherwise you will be cutting off a market pathway for us as well. Put differently, if independent processors are to receive some manner of cultivation license, those Level 2's that do not have a processing license should similarly receive one.

And finally, we continue to urge you to be modest in your approach to taxation with regard to an adult-use market. No market can exist without competitive prices, and products that people actually want to buy. If we are taxed so as to make us less competitive than Michigan or the black market, people will simply switch back to one or both of those other sources. **For this reason, and as a final request, we urge the Committee to maintain the 10% point-of-sale excise tax** contained in Issue 2, and not raise the rate or change how it is levied.

This concludes my testimony for today. I now would submit to any questions that the committee may have.

Respectfully Submitted,

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