



The Cannabis Industry Alliance of Oregon
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Ohio State Senate
Committee on General Government
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Prepared by Michael Getlin, Board Chair, CIAO and Director of Public Affairs for Nectar Markets LLC

Chair Rulli and Members of the Committee,

My name is Michael Getlin and I am the Director of Public Affairs for Nectar Markets, LLC. We hold three licenses in Ohio and operate 41 licensed cannabis retail stores in Oregon and California. I am also the Board Chair of the Cannabis Industry Alliance of Oregon, one of the West Coast's leading cannabis trade associations with more than 500 member businesses.

I would like to offer some of my perspectives from having survived seven years as a business owner in Oregon's cannabis market and how they may add to the discussion around SB9 in Ohio. In short, I have worked since 2018 to push Oregon's system back into a more sensible ratio of licenses to consumers. Since 2019, my team and I have passed two separate license moratorium bills in Oregon, to slow down the runaway train that our marijuana program has become. We are currently in hearings on a bill that will tie licensure to population moving forward, limiting our state to one retailer and producer for every 7500 residents, which is broadly seen as critical to the survival of our fledgling industry.

When Oregon rolled out its adult use program in 2016, we were considering many of the same issues that have driven the conversation here in Ohio. Patient access, competitive pricing, wide market participation, innovative product development and the expansion interests of existing and prospective operators, were all important issues for us. Yet in Oregon, we didn't have the advantage of watching other states' cannabis experiments pan out. In Ohio, you do. I ask that you use that advantage and look closely at what life has been like for Oregon cannabis businesses and patients over the last several years.

I started a production facility back in 2016. A couple family members and friends worked with me to turn literally every screw to build a high-end greenhouse facility. At first, we enjoyed rapid success, developing a completely novel cultivation system that meets full USDA organic standards, operates off living soil, has the lowest carbon footprint of any top shelf producer in the state, and consistently produces products that compete with the finest cannabis flower in the world. What's more, is that we could do all this at about half the average cost per pound of flower grown in Oregon at the time. We built our business from four to nearly forty employees, to whom we paid high wages and gave a full suite of benefits.

Yet even with all these advantages, we couldn't escape the economic reality of operating in Oregon with so much market saturation. Our average wholesale prices plummeted from over \$5.72/gram when we started, to below \$0.88/gram. Even at those prices, we simply cannot sell even a fraction of what we grow. Through 2022, we slowly contracted, shuttered greenhouses and laid off 34 hard



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working friends. Now, saddled with debt, we have two part time employees and will do a small run this year for extract material so that we can meet payment plan obligations.

Unfortunately, my farm is one of the lucky ones in that we even have the option to fight on. To illustrate the rate of business failures in our market, I looked at my books from the first six months we were in business and noted that of the hundreds of companies with whom we did business not seven years ago, only one corporate entity still exists. Many would argue that this is simply the process of the market sorting itself out and that an open market will lead to the best results for consumers. In most industries, I would agree. Cannabis however is very different, and there are two main reasons why:

First, state markets are limited by current consumer/patient demand within each state, yet capital flows freely. This means far more speculative investment is available for cannabis-legal states than the consumers in those states can support, leading to a breakdown of the market mechanism. Instead of capital following profitability, it follows access to licenses with little regard for how those licenses will perform. In Oregon, every time a business fails, someone comes in, buys the license and fails again, dumping even more product onto an already flooded market or creating even more over-competition as retailers desperately try to compete for ever shrinking market share.

The second critical factor here is the way the federal tax code interacts with state-legal cannabis businesses. With section 280e making it impossible to deduct the majority of normally-deducted expenses, many legal cannabis businesses are faced with effective tax rates in excess of 65% of gross revenue. This means that dispensaries need a minimum of 14,000-19,000 adult population per dispensary to be economically viable in the long term. In Oregon, that number is about 5,000. While initially our market looked stable and vibrant as gross revenue statewide continued to climb into 2021, the numbers eventually won out and our industry is now in extreme financial distress.

I want to also point to the fact that financial distress for us looks very different than it does for most small business owners. We have no access to banking which means that we are forced to seek hard money loans with interest rates often approaching 20% and viciously predatory personal guarantees. As such, most of us borrowed money from family and friends. We also have no federal bankruptcy protection, meaning when our businesses fail, we are *always* left personally exposed. When the market crashed in Oregon, the fallout was horrendous: utter ruin for thousands of our residents, layoffs, and unfortunately, even suicides.

Against all this it's critical to keep in mind that the black market is always there, offering untested and unsafe products to consumers as well as a potential way to stave off utter financial ruin for licensees. In my experience, those of us willing to go through the trouble and expense of opening legal cannabis business don't tend to jeopardize them by selling illegally. That said, when people are put in a situation where they have thousands of pounds of marijuana in a vault and have to choose between selling it on the black market and facing complete economic destruction for themselves and their friends and families, the situation can make criminals out of honest folks by leaving them with nothing to lose.



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It may seem like market saturation would lead to better patient outcomes, but curiously, this has not been the case in Oregon. Having worked with the medical marijuana advocacy community for years, it has been terribly sad to see our medical program wither and die. The cause is the simple fact that as prices plummeted in the adult use system, small boutique producers and processors who make specialized products for patients were no longer economically viable and shut down or converted to mass-appeal (and cheap) offerings. Now, ironically, in a state awash with cheap weed, many patients can't find what they need.

Ohio currently has about 130 dispensary licenses slated to serve about 160,000 patients. That ratio is roughly one for every 4200 patients. Compared to an adult use state, we would liken this to about one dispensary for every 16,000 residents (because not all residents consume), which is a healthy number that sits neither particularly high nor low as compared to other stable markets. If however, SB9 passes, Ohio will almost certainly hit a tipping point that could trigger the kind of meltdown I have experienced in Oregon.

Should this legislature choose to review qualifying conditions and expand patient counts and legal market participation by consumers, the time will come at which more licenses can be added to the system without sinking the ship. But take a cautionary tale from Oregon and don't expand licensure too early or too fast. There is no way to go back. Believe me, we are trying.

With Gratitude for your Time and Consideration,

Michael Getlin
Board Chair, Cannabis Industry Alliance of Oregon
Director of Public Affairs, Nectar Markets LLC