

BEFORE THE HOUSE FINANCE AND APPROPRIATIONS COMMITTEE

Testimony of Tom Hobson

Offered as an Interested party as to
House Bill 354

12/12/2023

Chairman Edwards and honorable members of this committee, thank you for allowing me to testify here today as an interested party regarding House bill 354. My name is Tom Hobson and I am the CEO of WellSpring Fields located in Ravenna, Ohio.

WellSpring Fields is a state licensed level 2 cultivator and processor. I started my first company based in Auburn Twp Ohio in 1984 with my father. When the Ohio medical program was announced my daughter came back to Ohio, and together with my son, we applied for and won a level 2 cultivator and processing license. WellSpring fields is truly a small family-owned Ohio business with no outside investors.

Before the consolidation in the market, we were able to sell to about 90% of the dispensaries in the Ohio market. After consolidation and the slowdown in the market, we have been forced out of many them despite patients still asking us for our products in these stores. This is primarily due to the fact that we don't have a dispensary. We have been told that companies with a dispensary have agreements to carry each other's products and these agreements shut out small Ohio based companies like ours.

I respectfully ask that the house allows the small Level 2 cultivators, like WellSpring Fields, to gain two dispensaries. This would give us a sufficient outlet for our products and allow us to compete with the large, vertically integrated out of state companies.

The other item I would like to address is the cultivation space allotment. The 15,000 square ft allotment in the initiated statute, while certainly better than the 3000 square ft allotted currently in the proposal that passed the Senate, falls way short of what we would need to effectively compete in an adult use market. At 15,000 square ft, the levels two's combined grow space would only equal about 8% of the available grow space in the market. I would respectfully request that you allow level 2's to cultivate 25,000 square ft initially and allow the marijuana oversite commission to determine later if further expansion is warranted. This would bring the level 2 cultivators to 11.78% of the grow space and allow for more competition.

Lastly, I would like to address the potency cap of 50% that is being considered for concentrates. When produced, concentrates naturally fall in a range between 75% and 95%. In order to achieve a 50% potency, the distillate will have to be cut with additives. Adding in cutting agents is risking unintended consequences and, ultimately, the health of the consumer. While the state can mandate what those cutting agents can be, there is no guarantee that problems won't occur down the road because of them.

Also, there is the illicit market and the availability of products right over the border in Michigan to consider. Since neither of these have potency restrictions or required additives, and consumers in Ohio are already buying from these markets, a cap on potency will likely prevent the movement of the Ohio adult use consumer to the Ohio regulated market. Consumers will only switch to it if they can get an equivalent product to what they are currently buying at an equivalent price. If the potency is roughly half of what they are used to, they will not switch. This will allow the black market, as well as the Michigan market, to flourish and likely grow. Why would these market grow? Primarily because possession is now legal, and forcing the consumer to buy from legitimate Ohio sources is impossible. With this enforcement element gone, more cannabis will be purchased at the lowest price and the highest potency from the other two markets.

Now that adult use is legal in Ohio, I would recommend that you eliminate the gap in legalization and product availability. Currently we are waiting for the adult use program to be built out. This gap is an opportunity for the black market to step in and flourish. The immediate sale of products through current medical dispensaries would help prevent the growth of the black market and allow consumers to access safe products while the rest of the adult use market is built out.

The one other consideration is the tax rate. If you tax cannabis at a higher rate than 10%, Ohio will see a decrease in the amount of expected tax revenue. A excise tax of 20%, would make the effective rate with sales tax at least 26.5% . Michigan's effective rate is 16% and the black market is 0%. The more the consumer must pay taxes in the Ohio legal market, the less they will buy here. I hate losing to the black market and I hate losing to Michigan.

I quickly want to address what was said from Ohio independent processor on Friday. As a processor, I understand the need to have biomass on a consistent basis and I believe that granting them the ability to produce their own biomass is reasonable. However, I don't believe they should be granted the license to produce and sell flower to dispensaries or biomass to the processing market. Every current cultivator had to go through a vetting process where they were scored on their ability to produce safe, secure flower for the consumer. The independent processors either did not apply or did not score high enough to be granted a license. Either way, they have not proven that they can produce flower safely and securely. If they desire a cultivation license to sell flower to the consumer and biomass to other processors, they will have an opportunity when additional licenses are made available.

Mr. Chairman, thank you for your work on this issue. I am happy to answer any questions you or members of your committee have.