



April 29, 2024

Dear Governor McKee, Speaker Shekarchi, and Senate President Ruggiero:

In accordance with the statutory mandate contained in the Rhode Island Cannabis Act, R.I. Gen. Laws § 21-28.11-8(b), Moratorium report, the Cannabis Control Commission (“CCC” or “Commission”) presents this study relating to the state of cultivation of Adult Use and Medical cannabis.

This study was prepared by the Office of Cannabis Regulation (“OCR” or “Office”), whose collaboration we appreciate.

If you have questions regarding this report, please do not hesitate to reach out to me at the below contact information. Thank you for your time and attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kimberly Ahern".

Kimberly Ahern
Chairperson, Cannabis Control Commission
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401-479-8635



Study relating to the state of Cultivation of Adult Use and Medical Cannabis

May 2024

Rhode Island Cannabis Control Commission

Kimberly Ahern, Chairperson

Robert Jacquard, Commissioner

Olayiwola Oduyingbo, Commissioner

Prepared by the Cannabis Control Commission

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Statutorily Required Study

Currently all operations within the cannabis industry are still functioning under Edward O. Hawkins and Thomas C. Slater Medical Marijuana Act, which directed the Department of Business Regulation (“DBR”) not to reopen the application period for new medical marijuana cultivator licenses as of July 1, 2019, pursuant to R.I. Gen. Laws §21-28.6-16(o), putting issuance of cultivation licenses in an ongoing moratorium.

The following study was conducted and is being provided based on a statutory mandate contained in the Rhode Island Cannabis Act.

R.I. Gen. Laws § 21-28.11-7, Licensed Cannabis Cultivators:

During the moratorium pursuant to this section, the commission, with the assistance of the advisory board, as required, shall submit a report to the general assembly which evaluates the cultivation of adult use and medical cannabis. The report shall consider factors, including, but not limited to:

- (1) Cultivation and production history;
- (2) Tax payment history;
- (3) Existing inventory and inventory history;
- (4) Sales contracts;
- (5) Current and future projected market conditions; and
- (6) Any other factors relevant to ensuring responsible cultivation, production, and inventory management for both medical and adult use cannabis.

And R.I. Gen. Laws § 21-28.11-8, Moratorium Report:

- (a) If the commission determines that the moratorium on issuing cultivator licenses is preventing an adequate supply of cannabis to fulfill the market demand pursuant to chapters 28.6 and 28.11 of this title, then the commission shall report the basis of the determination to the speaker of the house, the president of the senate and the governor.
- (b) No later than May 1, 2024, the commission shall conduct and deliver to the governor, the speaker of the house and the president of the senate, a study relating to the impact of the moratorium imposed pursuant to § 21-28.11-7 on the availability of cannabis for medical marijuana and adult use sales, and the projected need for the issuance of additional cultivator licenses to satisfy projected market needs.

The following pages of this study will address these statutory factors outlined in § 21-28.11-7 in order and provide the OCR’s analysis of each of these topics.

(1) Cultivation and Production History

There are currently 65 licensed cultivators including 5 vertically integrated compassion centers. The majority of licensed cultivators, 77% (including vertically integrated compassion centers), are licensed as Class As and Bs with facility sizes ranging from 5,000 sq. ft. to 10,000 sq. ft.

License class pertains to facility size of a cultivator licensee. We have 5 potential license class sizes ranging from 2500 sq. ft. up to 20000 sq. ft.

License Class	Count of Licensees	Licensed Facility Size	Licensing Fee
Micro	15	0-2,500 Sq ft	\$5,000
A	25	2,501-5,000 Sq ft	\$20,000
B	25 (Including vertically integrated Compassion Centers)	5,001-10,000 Sq ft	\$35,000
C	0	10,001-15,000 Sq ft	\$50,000
D	0	15,001-20,000 Sq ft	\$80,000

There has been one application period for cultivation licenses. The application period opened October 26, 2016, and closed April 30, 2017. The Department of Business Regulation received 117 total applications within that period.

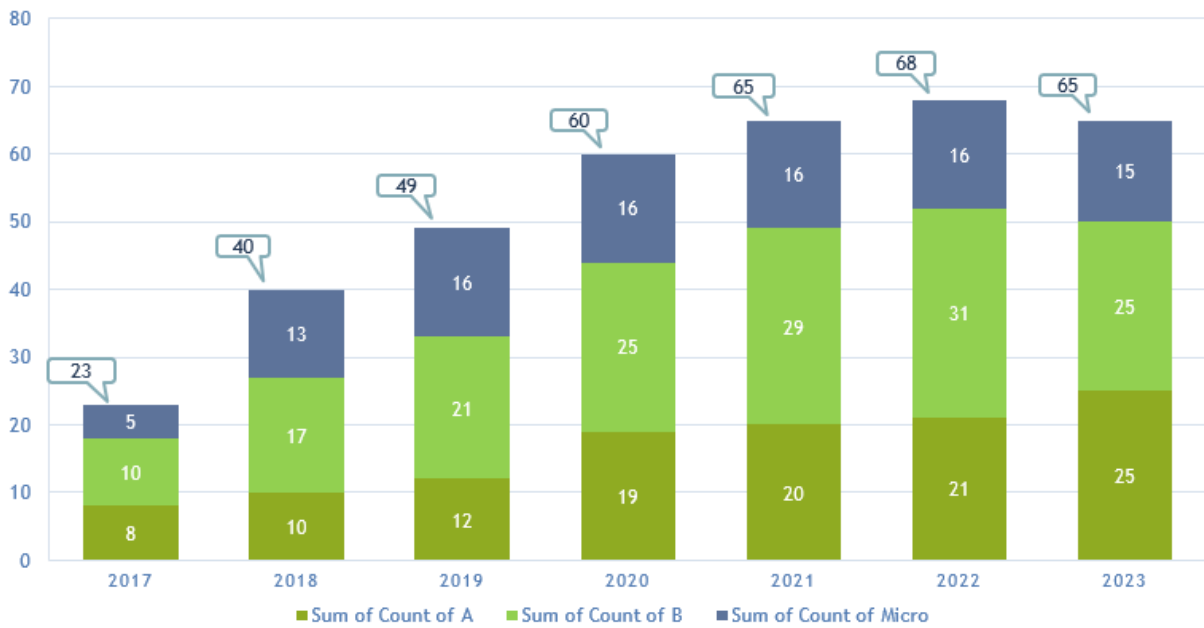
In accordance with 230-RICR-80-05-1.3(D)(3), only Micro, Class A, and Class B applications were accepted during that time. Unless DBR issues notice otherwise permitting new license applications, only Micro-license, Class A, and Class B applications will be accepted. An applicant who is considering eventually applying to operate a larger facility may detail any such plan on the application. A variance is required from OCR to expand into a larger class size.

As of March 1, 2024, OCR has not approved any variance requests for increased facility size. There have been two requests for increases, both of which have been denied. Historically, decisions on

Facility Class expansion and opening new cultivator license applications has been determined based on medical patient and program need, and not on individual entity sales. Not granting individual cannabis establishments increases in facility size is justifiable, as the Office has identified excess unused/unsold plant material within the current market and a decrease in medical sales, as this study will demonstrate.

Since the initial 2016 Cultivation License Application, 2023 was the first year where the count of active licensed cultivators declined. “Active” is used to delineate those cultivators who have licenses from those who may have had a license, but the license has since been surrendered or revoked.

Total Active Cultivation Licenses Each Year



Consistent with the decline in the number of licensed cultivators, 2023 shows for the first time, a decrease in total licensed facility square footage.

Total Facility Square Footage by Year

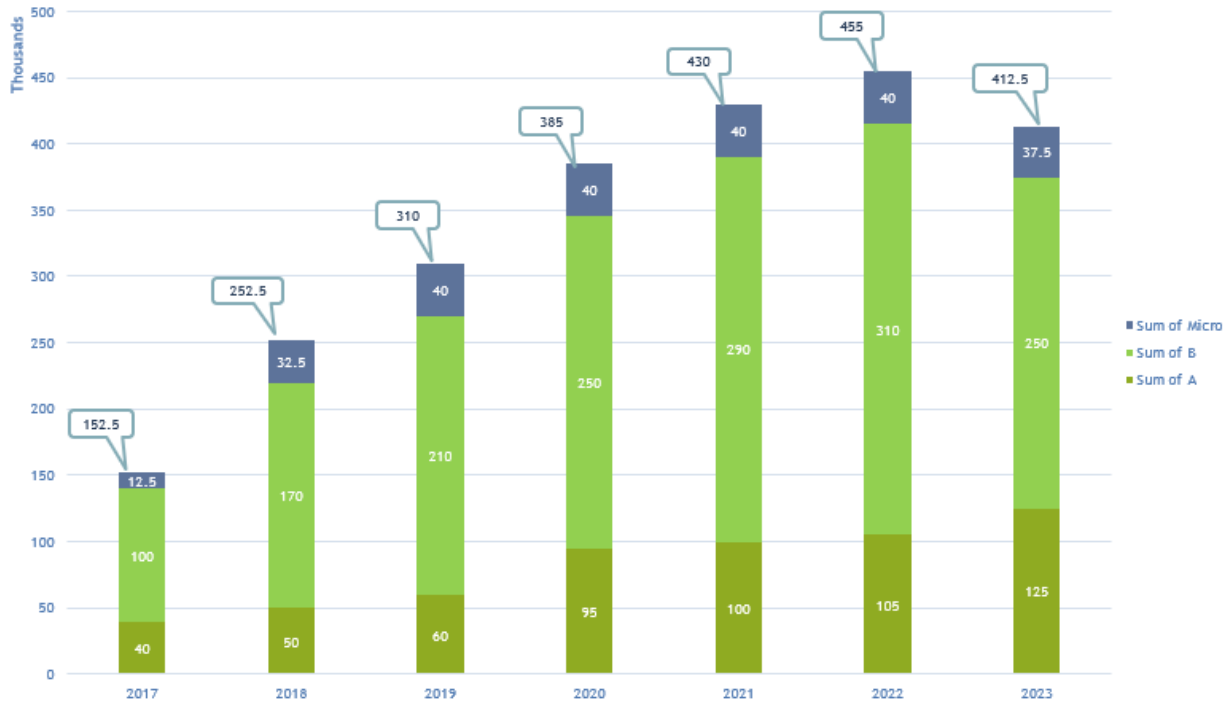
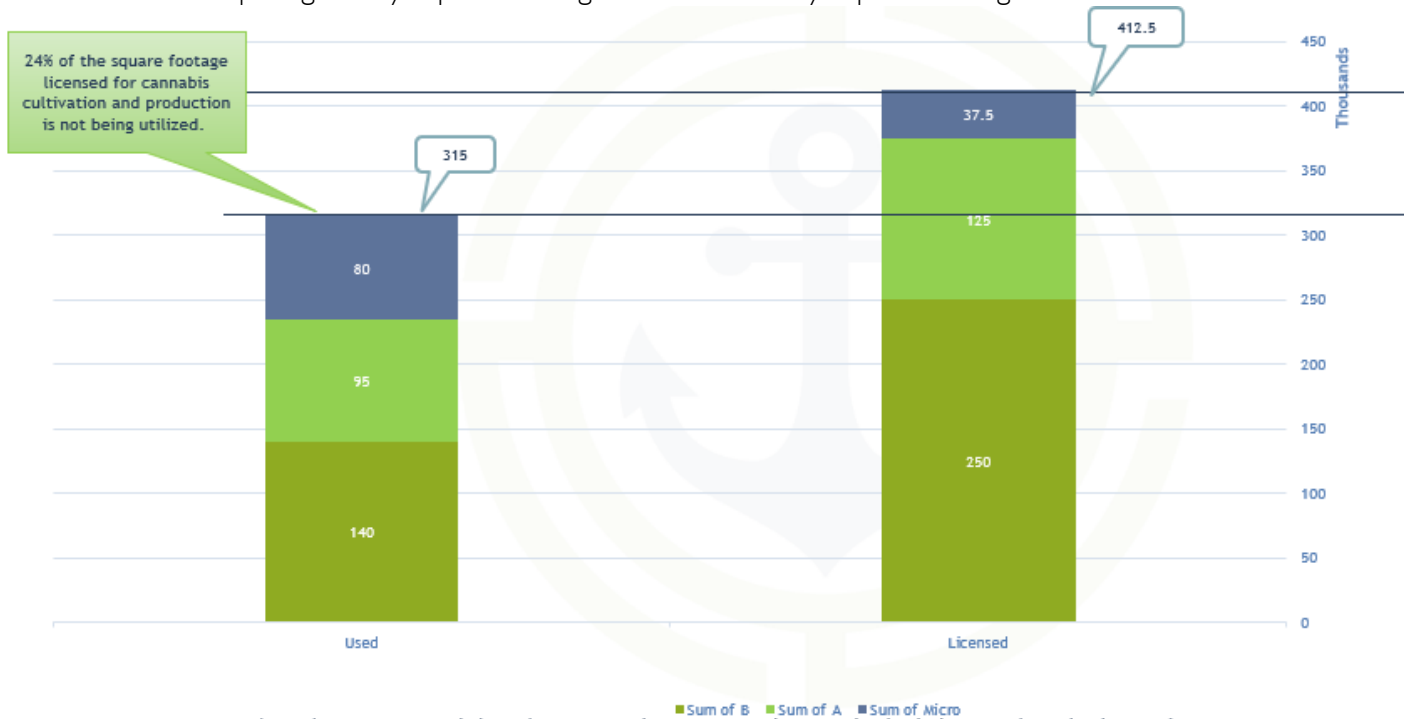


Chart Comparing Facility Square Footage Used and Facility Square Footage Licensed



* Used Canopy Space is based on OCR estimates, annual renewal submissions, and on-site inspections

In accordance with 230-RICR-80-05-1.3(D)(4), “facility size shall be determined as a total of any area where marijuana will be cultivated, stored, processed, packaged, and/or manufactured.” OCR has measured facility size by square footage, using a length by width calculation of floor surface area. Tiered tables space in grow rooms has not been factored into facility size at this time.

Above is a look at the utilization of facility size square footage across Rhode Island licensed cultivators and vertically integrated compassion centers. There is 24% or 97,500 square feet of facility space currently not being used. Based on OCR estimates, which utilized annual renewal submissions and on-site inspections, approximately 35% of all cultivators are operating at a lower facility size than they are licensed for. All vertically integrated compassion centers were assumed to be operating at or near full capacity.

- 48% of licensed Class As are operating as a Micro based on their estimated currently used square footage.
- 24% of licensed Class Bs are operating as a Class A based on their estimated currently used square footage.
- 20% of licensed Class Bs are operating as a Micro based on their estimated currently used square footage.

The foregoing reflects that even if there are no new cultivation licenses issued or variance requests permitted for class/facility size increases, the current industry will still have capacity to serve new retail establishments as current licensed cultivators have room to increase cultivation/production within their current facilities to meet present and future demand.

(2) Tax Payment History

Adult Use Cannabis is taxed at the Rhode Island 7% sales tax rate, plus an additional 10% for the state cannabis excise tax, and a 3% local excise tax on each retail sale.

As there is no required tax on wholesale transfers, cultivators are required to be compliant with 230-RICR-80-05-1.6(e)5(j). A tax affidavit in accordance with R.I. Gen. Laws § 5-76-1 et seq. is required to be submitted with each annual cultivator renewal application to ensure that all licensees are in good standing with the Rhode Island Division of Taxation prior to their license being renewed by OCR.

(3) Existing Inventory and Inventory History

In an effort to provide the cannabis industry with data points for understanding how our market compares to the national cannabis market, OCR derived the RI sales per square foot for Cultivators to Compassion Centers and then Compassion Centers to Consumers/Patients. National averages report that a square foot of single-level flower canopy can yield between \$500-\$1000 in revenue.¹ In RI, facility size is broader and includes areas where cannabis is stored, packaged, processed, etc.

Cultivator to CC Sales per Square Foot of Facility Size

Year	Canopy	Cultivator Sales	Cultivator Sales per Sq Ft
2020	385,000	\$19,856,905	\$51.58
2021	430,000	\$24,643,340	\$57.31
2022	455,000	\$15,520,093	\$34.11
2023	425,000	\$31,324,612	\$73.70

Retail Sales per Square Foot of Facility Size

Year	Canopy	Retail Sales (Total)	Retail Sales per Sq Ft
2020	385,000	\$79,932,175	\$207.62
2021	430,000	\$87,066,575	\$202.48
2022	455,000	\$69,231,439	\$152.16

¹ Ryan Douglas, "Opinion: How to boost Cannabis Cultivation Revenue with Young-Plant Sales", MJBizDaily, 21 December 2022, <https://mjbizdaily.com/how-to-boost-cannabis-cultivation-revenue-with-young-plant-sales/#:~:text=Every%20square%20foot%20of%20single,%241%2C000%20to%20%242%2C000%20per%20pound.>

2023	425,000	\$107,816,615	\$253.69
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RI sales per square foot are low in comparison to national averages potentially because of this more inclusive definition.

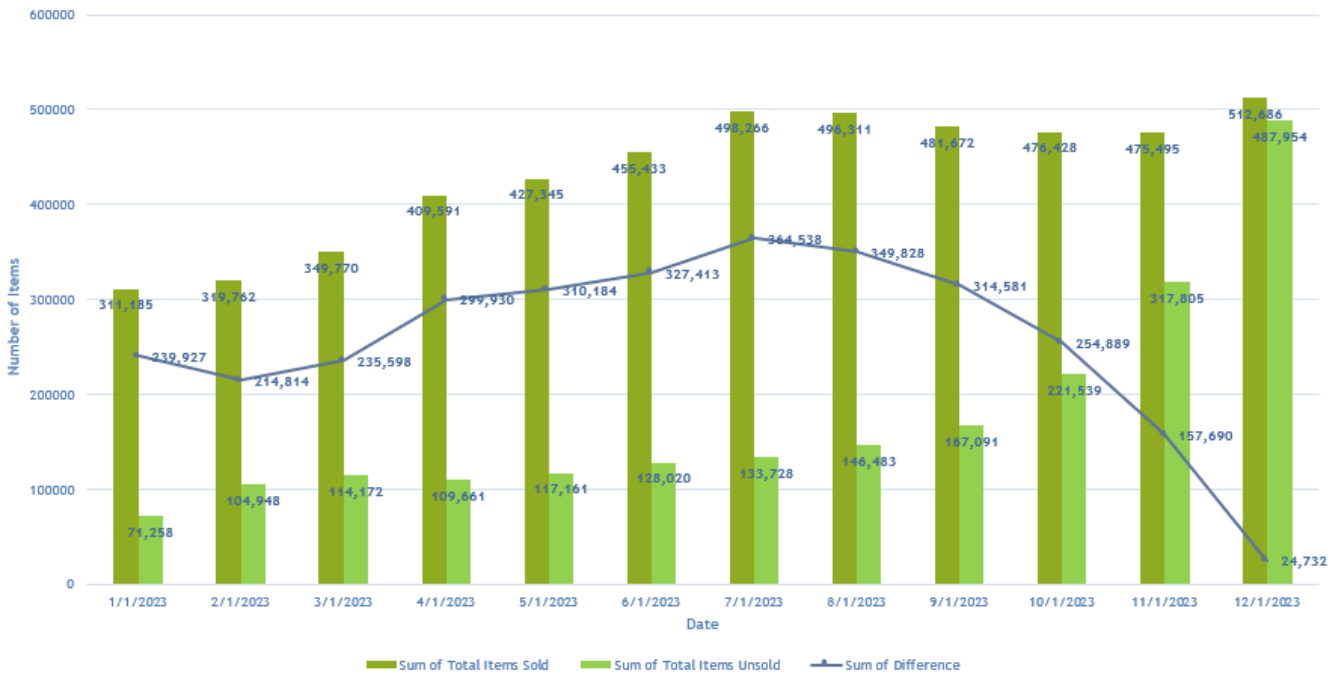
An increase in industry square footage would drive sales per square foot down further for both vertically integrated Compassion Centers and Cultivators. This figure illustrates the need for the market to sell more of what it is currently growing/harvested instead of licensing additional cultivators.

Grams of Bulk Plant Material on Reserve throughout 2023



Plant material remaining onsite and unused at cultivation facilities and vertically integrated compassion centers grew month over month during 2023. By December of 2023, there was 5.8 million grams, or 12,963 pounds, or 6.5 tons of plant material on reserve at licensed facilities.

Comparison of Sold Final Packed Items v. Final Packed Items on Hand at End of Month



“Final packed items” are individual cannabis products in final form that have undergone compliance testing and have been packaged and labeled in anticipation of being sold at retail to a patient/consumer. The number of items sold grew by 39% over 2023 while unsold items grew by 85% over 2023. At year end, the industry had a nearly 1 to 1 ratio of items sold to items produced month over month. The expected demand from adult use legalization appears to have been

overestimated by the industry and therefore, may have led to this increase in cultivation and production.

(4) Sales Contracts

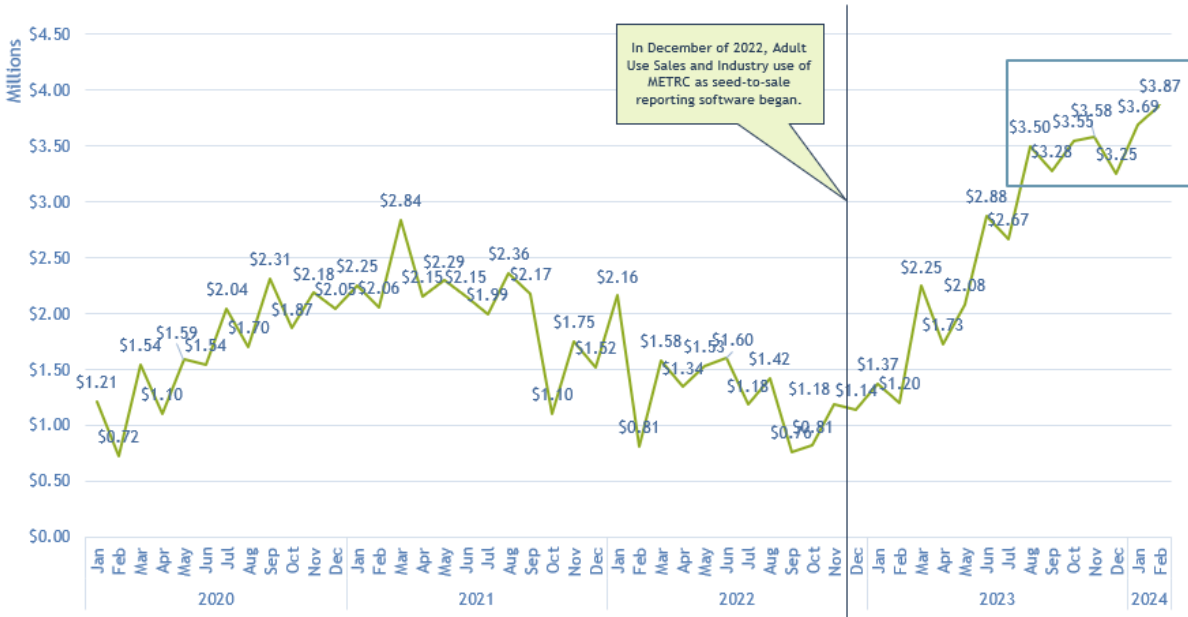
Cultivators enter into formal agreements with Compassion Centers to provide their products to the retail entities at wholesale. In 230-RICR-80-05-1.6.3(C) the requirements for “formal agreements” are as follows:

A written executed contract or purchase order shall be required for all sales or services from a licensed cultivator to a compassion center and from a licensed cultivator to licensed cultivator and shall contain the following minimum terms:

- a. Date of execution/placement of the contract/purchase order;
- b. Description and amount of product to be sold and/or services to be provided;
- c. The total price and per unit price of the product to be sold and/or services to be provided;
- d. The specific date or date range not spanning more than thirty (30) calendar days for fulfillment of the order, performance of the services, and delivery or pickup;
- e. The payment due date, as specifically agreed between the parties, but if no date is specifically agreed to, payment shall be made within thirty (30) calendar days of delivery or pickup; and
- f. Contracts/purchase orders pursuant to this paragraph may not be modified but may be cancelled or voided by the creation of a new replacement contract/purchase order.

Wholesale products are products sold or transferred from a cultivator to a compassion center.

Cultivator to Compassion Center Wholesale



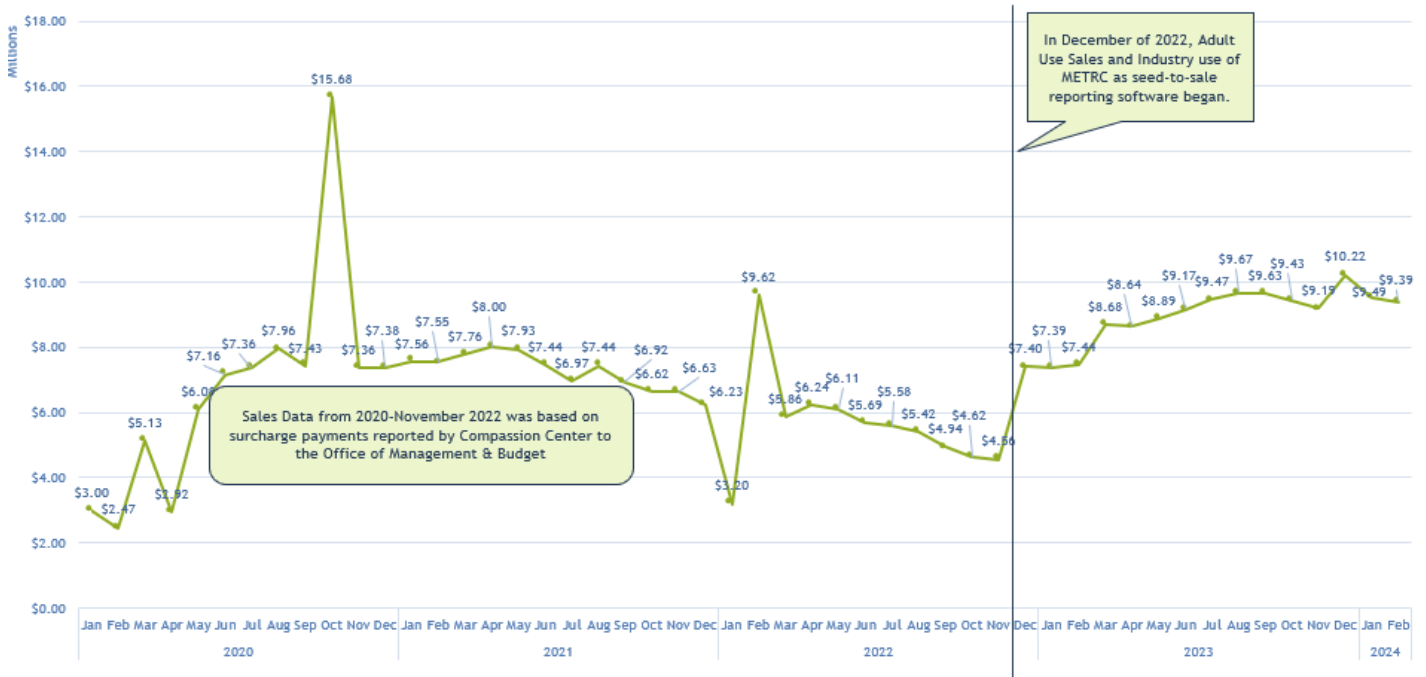
By February 2024, wholesales had reached \$3.87 million dollars. Please note, these figures do not consider vertically integrated compassion centers cannabis product transfer from their own cultivations to their retail space. The blue box in the above figure highlights that since August of 2023, the wholesale growth rate has slowed, holding steadily between \$3-4 million per month. As products continue to diversify and adult-use cannabis legalization in Rhode Island continues to spread via now legal advertisements, wholesales are expected to continue to grow steadily month over month in line with a steady but slow growth in retail sales.

(5) Current and Future Projected Market Conditions

Current trends for wholesale have been identified in the previous section and chart.

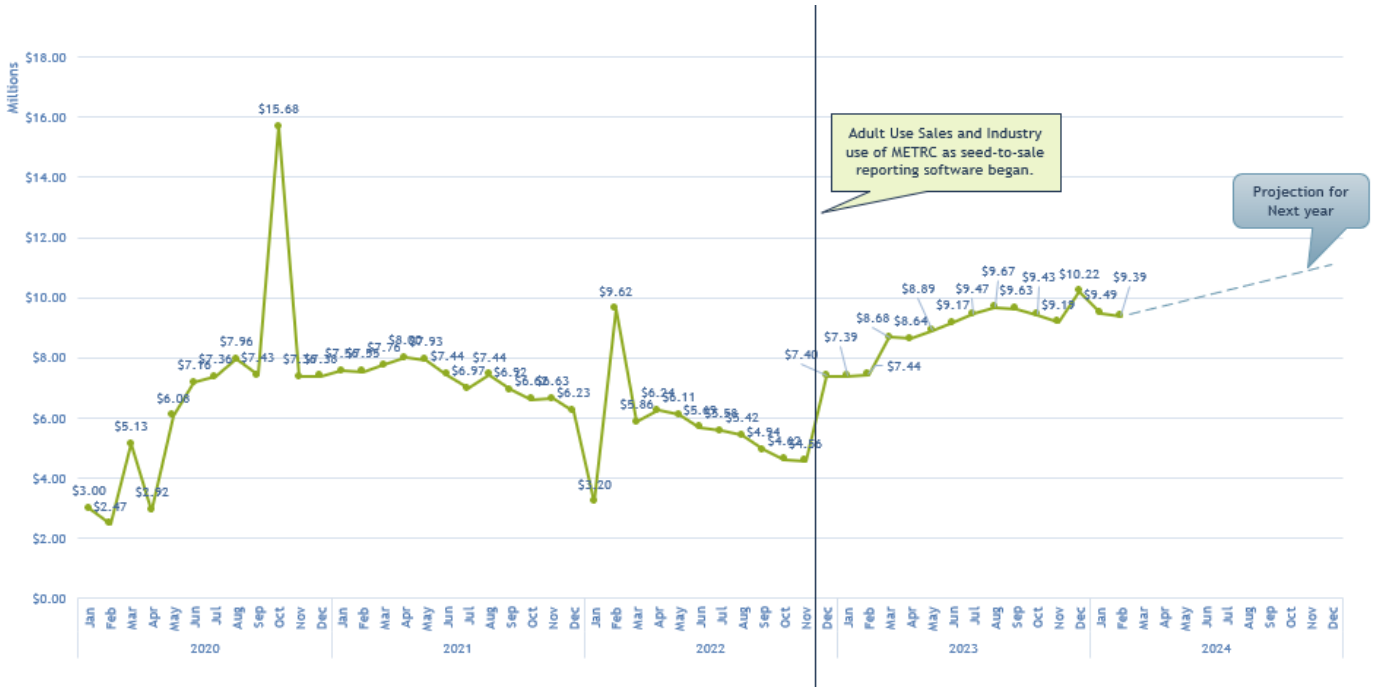
In December of 2022, Adult Use Cannabis launched as well as the industry wide implementation of Metrc, RI's seed-to-sale tracking system. There was an initial spike in retail sales, but that growth has slowed, hovering at or around the \$9 million dollar range as of the first quarter of 2024.

Total Retail Sales 2020-Present



As for future projections, OCR expects total retail sales to emulate a similar slow but steady growth for most of 2024.

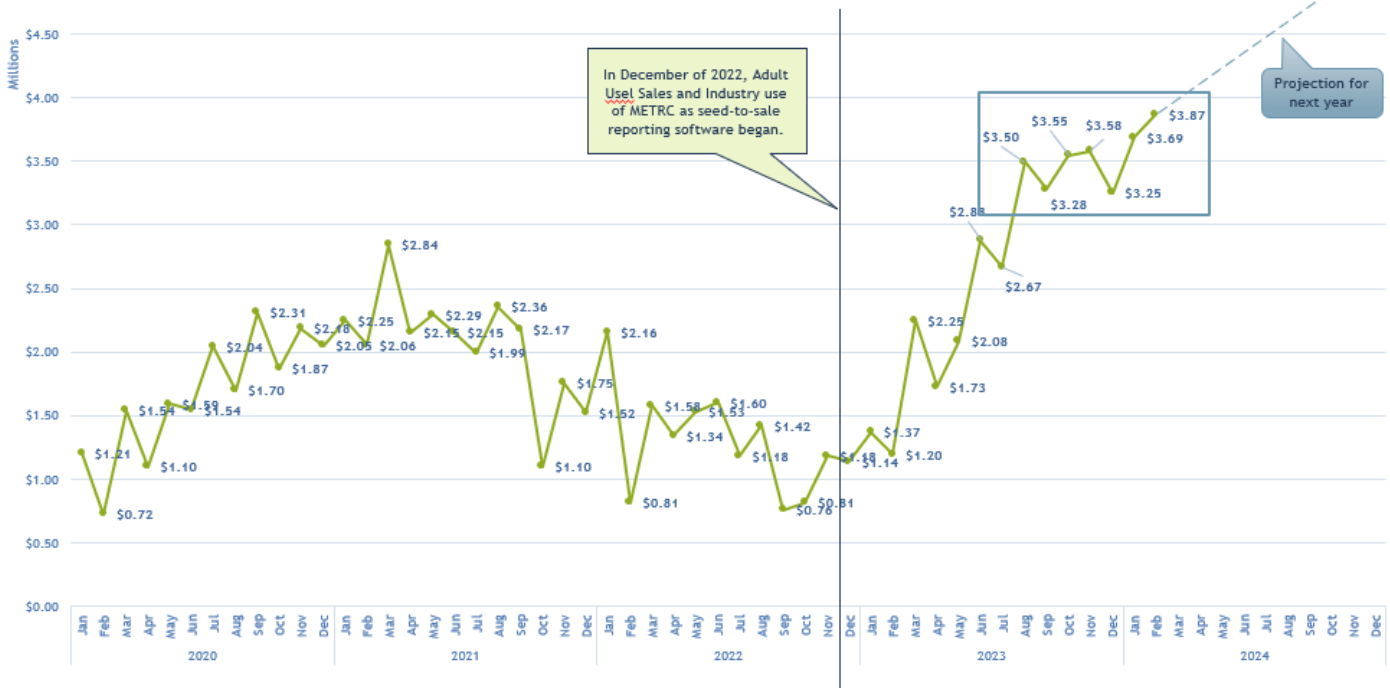
Future Total Sales



From January of 2023 to February of 2024 there has been a 2% average monthly increase in retail sales. Assuming this trend continues, we would expect monthly retail sales to be around \$11 million by December 2024.

Future wholesale projections emulate a similar slow but steady growth throughout 2024.

Future Cultivator to Compassion Center Wholesale



While there was an average 16% monthly growth in wholesale dollar amount throughout 2023, a more accurate representation of current market trends can be pulled from August 2023 to February of 2024 highlighted within the blue box, which experienced a growth rate average of 7% per month for those 7 months. Using August 2023 as a starting point excludes the production ramp up that Compassion Centers and Cultivators undertook in anticipation and sustainment of initial Adult Use cannabis sales.

This estimate considers the state of retail sales no longer growing as rapidly. With that in mind, OCR expects the wholesale dollar amount to continue to grow in line with the 7% monthly average and remain steady throughout 2024, potentially reaching as high as \$6 million dollars per month by December 2024.

Conclusions

- Existing licensed cultivators are currently and will continue to meet an increased demand for cannabis products based on this assessment.
- There is 97,500 square feet of underutilized licensed facility space that can be leveraged for increased demand from future retail establishments.
- While total retail sales grew by 24% during 2023, wholesale production increased by 584%.
- Increased production rates and the remaining bulk/trim flower left in cultivator inventories indicate enough plant material to meet and exceed both current and future demand.
- It is likely retail sales will continue a steady rate of growth as the industry continues to grow.