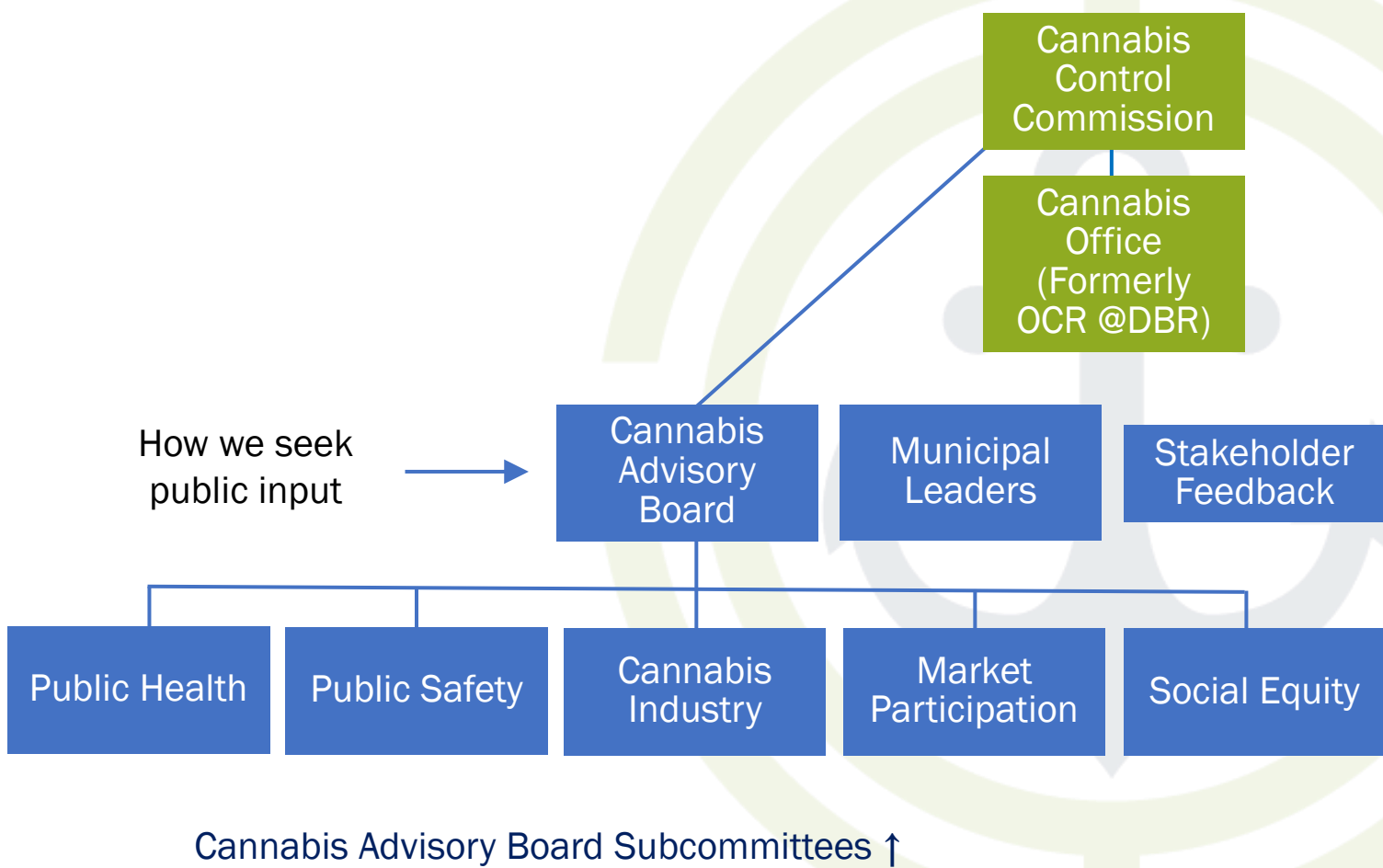




Licensing Selection Process Presentation

CCC Organizational Chart, Goals & Source Information



Guiding Pillars

- Safety
- Transparency
- Equity

Goals

- Competitive with neighboring states
- Supporting RI small businesses
- Raising per capita income
- Creating sustainable market

The Year 2023 In Review: Where We've Been

Key appointments:

- May: Governor appointed inaugural three members of the Cannabis Control Commission (CCC)
- June: State Senate gave Commission members Advice & Consent
- August: The Governor, House Speaker and Senate President named appointed members to the Cannabis Advisory Board (CAB)

Accomplishments:

- July through November: CCC held five listening sessions across the state in various formats (zoom, in-person, Spanish speaking) to receive input from the community and industry professionals
- September- December: CCC hired essential staff to begin implementing its operational and regulatory goals
- November: The CAB held its first public meeting and has since held numerous open meetings. The CAB formed its five statutorily mandated subcommittees and through a series of open meetings has been receiving matters for consideration from the CCC.

Industry Snapshot:

- Adult-use cannabis sales in Rhode Island have steadily increased nearly every month since being legalized in December 2022. This growth is due in part to the State's efforts to create a safe and regulated market that is accessible to adult consumers over the age of 21. There are currently 7 hybrid retailers selling medical and adult use cannabis, over 60 cultivators, and 3 testing laboratories.

Helping Small Businesses:

- With the recommendation of the Department of Business Regulation (DBR), the General Assembly passed an amendment to the state's advertising regulations allowing RI retailers to advertise their products in the state. The change has helped retailers effectively compete in the growing market. Another bill was recently passed allowing cultivators to advertise.

2024: Where We Are Going

- **May 2024:** Governor appointed Michelle Reddish, MS, MPH, as first ever Administrator to the future Cannabis Office. Michelle was confirmed by the state Senate in June 2024
- **Spring 2024:** CCC submitted two study reports to the General Assembly on the Medical Marijuana Program and a market demand study on cultivation, and has acquired and compiled data and information to comply with imminent reporting requirements
- **Launched new data hub** on the Office of Cannabis Regulation website to provide real-time cannabis industry data to the public
- **Assigning key topics to the Cannabis Advisory Board**, including those mandated in the Cannabis Act, and receiving feedback, recommendations and advice as the CAB reports back to the CCC
 - For example, CAB recommendations were delivered in June 2024 to the CCC on cannabis product packaging and labeling
- **Designing Rhode Island's first Social Equity Program**
 - Includes working with data professionals to map key demographic data specified in the Cannabis Act to identify the state's disproportionately impacted areas
 - The CCC will provide future public briefing on details of the Social Equity Program
- **In process of actively drafting future CCC regulations**, requiring the CCC to follow the detailed Administrative Procedures Act process to draft, finalize and promulgate our first set of regulations
- **Allow for Public Comment and Feedback through presentations on key regulatory topics at Open Meetings**
 - For example, proposed changes to packaging and labeling draft regulations presented to public at July open meeting

Cannabis Landscape in the United States

- 38 states, along with 3 U.S. territories and Washington D.C. permit medical use cannabis
- 24 States have legalized adult use cannabis, along with 3 U.S. territories and Washington D.C.
- 7 additional states have decriminalized possession of adult use cannabis
- All New England states except for New Hampshire permit adult use cannabis sales
- On the federal front, the United States Department of Justice initiated a formal rulemaking process to consider re-scheduling marijuana from a schedule I to schedule III narcotic under the Federal Controlled Substances Act

Conditions in Nearby States and Beyond...

Massachusetts: Unlimited licenses available, oversaturation of cannabis market causing drop in product price

Connecticut: Limited licenses awarded through hybrid randomized selection process that screens for qualified applicants, regulators assessing market conditions before awarding additional retail licenses

Maine and Vermont: Unlimited licenses, merit-based application process

New York: Litigation attacking roll out of priority licensing for applicants with prior cannabis convictions over other qualified social equity applicants brought licensing scheme to halt following judicial grant of injunctive relief, causing hundreds of unlicensed retailers to flood the unregulated market during the delay

California and Colorado: Unlimited licensing and significant cannabis overproduction has led to lobbying and efforts toward affirmative litigation in other states seeking to open interstate cannabis commerce markets



Lessons from Licensing Litigation in Other Adult Use States

- Cannabis licensing is extremely competitive, industry experts advise that applicants know when and how to challenge denials of applications for cannabis licenses
- Litigation can delay the entire licensing process as litigants often seek injunctive relief to stop entire licensing process from proceeding while their case is pending
- Even non-meritorious litigation can still impact and slow down the system enough to stop progress
- Most common reasons to challenge a cannabis license denial include:
 - Unfair or unlawful licensing process: includes attacking constitutionality of process under enabling act or the administration of the licensing process
 - Arbitrary or capricious grading: challenges include inconsistent scoring, negligent scoring, and erroneous scoring; still occurs in states that hire third-party consultants to score applications and is recognized in the industry as the most successful grounds for an appeal
 - Bias and/or corruption: allegation that is often brought if state's regulators have a close relationship with a successful applicant

Merit-Based Licensing Selection Challenges in Other States

- Illinois: Accepted applications in 2019 and 2020 as part of a merit-based system that used a scoring point-based system. After years of litigation stemming from the scoring process, regulators were required by the courts to move to a lottery system
- Alabama: Accepted applications in 2022 for a limited number of medical licenses. Regulators attempted to award licenses for integrated facility licenses and retailers multiple times and after each attempt were faced with litigation that has not yet resolved, resulting in producers with no outlets to sell their products
- New Jersey: Assessment of ~150 applicants in a 2019 merit-based process was delayed for more than a year due to litigation related to the challenged disqualification of several applicants on technical grounds. This was the second time the state faced lawsuits stemming from merit-based applications
- Georgia: Issuance of 2/3 of state medical licenses were held up for over two years by lawsuits from unsuccessful applicants who did not score high enough to receive licenses in the scoring system employed. The state has decided to award licenses while lawsuits continue, creating uncertainty for the market



Examples of Demand in General Cannabis License Lotteries

State	# of Applications Received	# of Licenses Issued	Date of Lottery Drawing
Arizona (AZ)	355 "Early Applicant" applications received	13 "Early Applicants" received adult-use dispensary licenses, across 8 counties	April 2021
Connecticut (CT)	7,208 applications received, from 736 unique applicants	56 applicants received licenses	June 2022
Illinois (IL) - First Round	3,332 applications received	55 applicants received licenses	August 2021
Illinois (IL) - Second Round	1,611 applications received	75 applicants received licenses	August 2021
Washington (WA)	1,174 applications received	24 applicants received licenses	April 2014

Examples of Demand in Social Equity License Lotteries

States	# of Social Equity Applicants	# of Social Equity Licenses Awarded	Date of Lottery Drawing
Arizona (AZ)	1,301 applications received	26 applicants received licenses	April 2022
Connecticut (CT)	8,260 applications received, from 419 unique applicants	28 applicants received licenses across 8 license types	May 2022
Illinois (IL)	3,695 applications received	55 applications from across 17 regions received licenses	August 2021
Maryland (MD)	1,708 applications received	174 applicants received licenses for various cannabis business types	March 2024
Missouri (MO)	1,625 applications received	48 applicants received licenses	October 2023
Minnesota (MN)	1,817 applicants	280 licenses available	TBD

Authority: The Rhode Island Cannabis Act

R.I.G.L. § 21-28.11-5, Powers and Duties of the Commission:

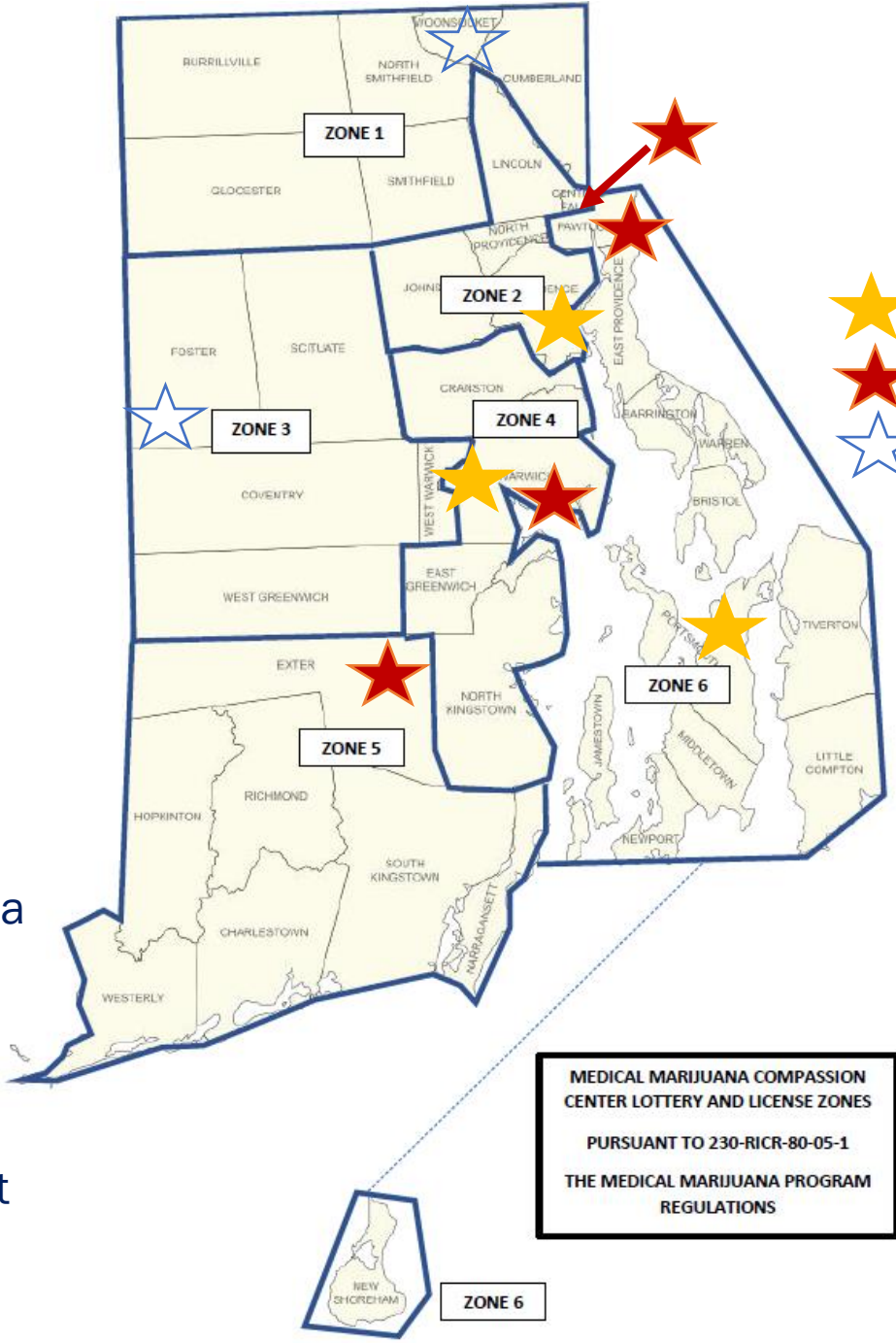
- ▶ Determine which applicants shall be awarded licenses
- ▶ Deny an application or limit, condition, restrict, revoke or suspend any license
- ▶ Determine and establish the process and methodology by which licenses shall be awarded by the Commission

R.I.G.L. § 21-28.11-17, No right to license:

- ▶ Nothing contained in the Cannabis Act shall be construed as establishing a right in any person or entity to be issued a license

Regulatory Zones + Compassion Center locations

- The Cannabis Act authorizes the CCC to issue up to 24 adult use retail licenses, to be distributed equally across 6 regulatory zones; two licenses in each zone are reserved for a social equity applicant and a workers' cooperative applicant.
- This will bring the total number of retail outlets in RI to 33, with 9 existing hybrid/MMP licenses plus the 24 new adult use retailers to be added



- ★ CC licensed pre-2022
- ★ Newly licensed CC
- ★ Licensure in process

MEDICAL MARIJUANA COMPASSION CENTER LOTTERY AND LICENSE ZONES
 PURSUANT TO 230-RICR-80-05-1
 THE MEDICAL MARIJUANA PROGRAM REGULATIONS

NEW SPICERIAN
 ZONE 6

Rhode Island: Previous Practices in Licensing Selection Process

- In October 2021, the Office of Cannabis Regulation held a random selection process for the selection of available Compassion Center licenses under the Medical Marijuana Act
- There were a total of 45 applications received and 40 applicants were entered in the random selection process
- There were only 6 licenses available for licensure under the Medical Marijuana Act with its associated statutory license fee of \$500,000
- Licensing process was live-streamed and open to public attendance
- State licensing process was not subject to litigation
- Timing was efficient – thorough review of applications and the licensing selection process was conducted within 4 to 6 months

Lessons from Other States: Considerations that Weigh Against a Wholly Merit-Based Licensing Selection Process

- Rhode Island has a small, limited number of new retail licenses available and will likely receive more qualified applications than licenses available
- There is difficulty in creating an appropriately-weighted, merit-based application in which scoring cannot be challenged as arbitrary or capricious
- Selecting applications based wholly on merit in a small state fosters the appearance of favoritism and/or impropriety in the selection process
- As we have seen from other states, selecting licensees based on “merit” will increase likelihood of litigation due to discretionary decision
- Multi-state operators with established financial and legal resources have advantage in merit-based licensing over local businesses, start-ups and social equity applicants
- Merit based scoring systems face the most legal challenges, leading to unwanted delay

Considerations that Support Hybrid Randomized Selection Process Licensing in Rhode Island

- Selection process used by most limited-license states
- Ideal for states with limited number of licenses where thousands of applications could be received for a small number of available licenses
- Similar to prior licensing process in R.I. and follows industry precedent
- License application for entry into selection pool can ensure that all finalists are qualified and ready for final licensure
- Blind fairness system for pool of qualified applicants is based on chance rather than being selected over other applicants
- Reduces risk of litigation stemming from scoring system or discretionary choice challenges
- Eliminates appearance of favoritism, outside influence, inside advantage, bias and corruption
- Mitigates factors that may delay licensing process

Rhode Island: Hybrid Randomized Selection Process

- Applies key lessons learned from 2021 selection process, including efficiency and effectiveness of process
- Initial merit-based application ensures applicant qualifications, ability and readiness for licensure
- Screened, qualified applicants then placed into pool for random selection process
- Random selection process conducted only in those zones where the demand for retail licenses outweighs the supply of available licenses

