

**TESTIMONY -- JOINT LEGISLATIVE BUDGET HEARING****FEBRUARY 13, 2020****PRESENTED BY: ALLAN GANDELMAN, PRESIDENT****NEW YORK STATE CANNABIS GROWERS & PROCESSORS ASSOCIATION, INC.****ABOUT NYCGPA**

The New York State Cannabis Growers and Processors Association, Inc. ("NYCGPA" or "Association") represents New York businesses that produce hemp and cannabis products. We bring a passion for growing, processing, and providing consumers with the highest quality cannabis products. The Association advocates for environmentally sustainable practices throughout the industry and believes that communities in New York State should benefit from the cannabis industry rather than only large multistate operators. We formed the Association to fill gaps in the industry around farming, processing and most importantly policy. The industry has been growing and changing so fast, creating difficulties for regulators and state Departments of Agriculture to keep up. We believe that our industry is strongest when our small and midscale family farms prosper.

The people and companies that we represent form the "breadbasket" of New York State, both from a food and small business perspective. Given the right balance of cannabis laws and regulations, farms will thrive throughout New York and ship products into urban areas. However, we currently see a lot of hardship in the farming industry.

To give a sense of scale, New York has over 35,500 farm operations with over 7,200,000 acres operated (over 35 times larger than NYC) producing over \$5 billion in revenue (USDA). Besides dollars, farmers produce immeasurable value in the products that act as a basis to a whole host of other industries. However, the scale of farming in New York State hides the challenges faced by farmers in running their businesses—climate change, tight margins, reliance on loans and overseas competition creates an enormous amount of risk with catastrophic consequences lurking around every corner.

New York has a real opportunity to build a thriving local adult use industry that can benefit growers and communities across the state. We deeply appreciate the possibilities offered in the Cannabis Regulation and Taxation Act (the "CRTA" or "Bill"). As an Association, we see the transformative opportunities for New York State contained in the Bill. We address below areas that could further the mission of creating a safe and robust cannabis industry that benefits all New Yorkers.

LICENSING

The CRTA creates a number of license categories that companies will need to obtain in order to participate in the industry. We already see many large out-of-state companies positioning for



licenses and pursuing a strategy that does not support smaller business development. Growers and processors across New York possess expertise in precisely the areas required for the adult use market. Cannabis can grow responsibly as an artisanal industry, providing a much needed economic boost to communities all over the state. Our Association has already seen the benefits of the hemp industry as farmers embraced the new product categories offered by hemp. In providing licensing for local businesses, the revenue generated will go directly to communities that produce the products that New Yorkers purchase. With many upstate communities struggling with a whole host of issues, including the loss of jobs, cannabis represents an opportunity to re-industrialize where we need it most. Counties and municipalities will benefit from jobs that the industry creates and workers will feel a sense of pride in producing products for New Yorkers by New Yorkers.

Licensing categories will likely relate directly to canopy limits for the size of a growing operation. The economic viability of a company and its success will directly depend upon the limits placed by the license categories and how the state chooses to award licenses. New York estimates that the state will require one million pounds of cannabis per year to meet demand. As an example, a microbusiness license with a limit of a 5,000 square foot canopy can produce between 500 and 1000 pounds of cannabis per year. With these production numbers the state will need to give one to two thousand cultivation licenses. We see the opportunity to incubate small businesses throughout the state as a significant economic stimulus that will build upon itself. Currently the CRTA does not put a number on how many licenses of each class will be given out or the size of canopies under the licenses. Our Association would like to see a baseline structure that favors instate growers and processors, creating economic development in communities that need it.

We believe that New York should aim at creating 1,000 one-million-dollar companies instead of 1 one-billion-dollar company. The distribution of wealth generated by the industry will serve as an economic shift for New York State that residents will experience through greater spending power and tax revenues that will support projects across the state.

TAXES

The CRTA proposes tax rates that exceed most other states that already legalized cannabis, with a large burden falling on cultivators. Under the Bill, cultivators will pay \$1.00 per gram of dry weight. In contrast, cultivators in California pay 35 cents per gram. The rigid structure proposed in the CRTA could stifle the growth of small producers and create razor-thin margins, allowing large operations a competitive advantage. Importantly, by raising the price on consumers, the high tax burden will likely drive consumers to illicit-market options where they can obtain similar products at a lower cost. We see two options as viable--either we need a lower tax rate or a progressive tax. The New York craft beer industry provides a good example where the smaller producers pay a lower rate than larger companies.



For us to truly end prohibition and for the CRTA to work from an economic development perspective, New York will need to address the illicit market.

In New York, we have the luxury of looking at other states as real world laboratories to see what worked. Andrew Freedman, who spent three years as Colorado's Director of Cannabis Coordination, stated that creating a lower tax rate for consumers favors using dispensaries rather than the illicit market. In other words, by starting with a low tax rate, consumers align their behaviors with the economic incentive of lower cost products. The low rate also creates a greater likelihood that startup small businesses will achieve stability in a completely new industry. As the the industry develops, we need a progressive tax rate that can increase each year as the market stabilizes and supply and demand develop in tandem. In looking at California, after three years of tax revenue the state only managed to collect one third of what it expected. California only awarded 800 operating licenses of the expected 6,000 and 80% of the cannabis market remains illicit. In Washington, the tax revenue started out as less than expected but once the state lowered the effective tax rate, tax revenue increased by 200% that year.

When looking at the balance between tax revenue and small business growth we believe that tax revenue in the first year or two should serve as a means to fortify the program and stabilize the Office of Cannabis Management. Major studies on cannabis taxes and revenue as related to economic development show that local economies benefit from job creation with a significant boost to local sales tax revenue from equipment dealers, goods suppliers, and related services connected with the cannabis industry. In other words, the state should not take a short sighted approach to taxes. The creation of a stable industry will continue to generate tax revenue for years to come. In taking a patient and planful approach, New York will solidify this opportunity and act as a model for the rest of the country.

CONCLUSION

We fully support the creation of a safe and responsible cannabis industry for New York State. Our work brings us in contact with consumers everyday who tell us that they appreciate the level of dedication that we give to our products. Similarly, in creating the cannabis industry, we see a real opportunity to benefit the people of New York State. In structuring the Bill to support local communities, New York residents will experience the benefits of increased tax revenues and job creation. The re-industrialization of our communities will create job opportunities, encourage the growth of related industries, and generate pride in allowing people to participate in this new industry. We truly hope that New York State seizes this moment as only New Yorkers can do. We recognize the challenges that cannabis presents but also see the vast possibilities for the industry and state. As business owners, we will dedicate ourselves to helping realize these possibilities for our communities and employees.