



August 2nd, 2022

Re: OC Comments on DCC Proposal to adopt regulations for large cultivation licenses and conversion to large and medium licenses

Dear Director Elliott and DCC Staff,

On behalf of Origins Council, representing nearly 900 licensed small and independent cannabis businesses in six rural, historic cannabis farming regions throughout California, we appreciate the opportunity to comment on the proposed regulations for Type 5 Cultivation Licenses.

Where do we stand today?

The sorrowful circumstances on the ground in our communities compels us to contextualize the Type 5 Licensing policy within the broader community discussions around the industry wide market and licensing crisis facing California cannabis.

The endeavor to transition an established socio-economic and political system, that of California's existing medical cannabis cottage industry, into a tightly controlled commercial regulation and taxation framework, necessitates that framework have sufficient alignment to

meaningfully integrate the preceding system. The margin of error for the new and old systems to mismatch is low, and the stakes are very high in this type of endeavor. Numerous ecologically sensitive bioregions, entire regional economies and the survival of several iconic American subcultures hang in the balance in this case of working to regulate legacy California cannabis.

Five years after introducing the regulatory and licensing framework for California cannabis, it is unfortunately very apparent that the framework itself and the resulting market severely disadvantages modestly resourced small businesses, especially small-batch, homestead producers in legacy farming regions. As a result, the environmental and public health and safety objectives the People of California voted into law through AUMA are not being met in our communities. To the contrary, we are experiencing the collapse of our local regulated cannabis industries and the mushrooming impacts of this on the fragile socio-economic and environmental fabric of our rural communities. Illicit production and all associated impacts continue. Families are moving away, communities are being ripped apart. Substance abuse, mental health crisis, suicide and divorce rates are rising at an alarming rate. A significant percentage of local properties are up for sale, while property values are declining. Ancillary service providers such as garden centers are shuttering. Accountants, lawyers and other compliance professionals report a catastrophic decrease in clients and are assisting with business closures at an alarming rate. Local nonprofit organizations, volunteer fire departments and other community based organizations dependent on community funding are struggling. Our multigenerational farmers are being forced to export their talent, and there are reports of genetics being lost to closures and relocation to other regulated markets. Loyal, long time California consumers and patients are losing access to legacy cultivars, brands and formulas that they need and love.

How did we get here?

At the heart of this failure is the fact that market expansion is incredibly handicapped by local control and the inability for licensed producers to sell directly to consumers, coupled with the significant and ever increasing relative overproduction of regulated California cannabis. The glut is so extreme that it has impacted every sector and scale of licensed cannabis business in the State. The proverbial nail in the coffin is that the California cannabis excise tax rate is so high that it is pushing away consumers who are instead being serviced by a prolific and readily accessible illicit market.

How is this relevant to the issuance of Type 5 Licenses?

The policy making and implementation surrounding the Type 5 license is the premier example of the severe cost of misaligning the regulatory framework relative to the shape and needs of the legacy market to successfully transition. The integrity of the California cannabis licensing system introduced in statute was centered around securing a five year runway for small, legacy producers to come into licensing and establish a market within a slow growing retail landscape, paced through the local control framework. The immediate issuance of stacked licensing for

large scale production from day one of licensing completely undermined the form and function of the intended framework, resulting in today's increasing market chaos and broken public trust.

Many contingent aspects of licensing and regulation no longer make sense and even further undermine the system, particularly dis-advantaging small batch producers. For example, limiting cannabis cooperative associations (CCAs) to 4 cumulative acres of production, and CCA members to a single license -- even if the second license is simply a different cultivation method on the same property by the same member - in the context of unlimited license stacking only serves to hinder the utility of the cannabis cooperative association structure.

Similarly, the allowance for vertical licensing that was intended to be an exclusive entitlement for small producers under the provisions of the Type 5 License but which remains to be an option for large scale producers through the continued allowed practice of license stacking no longer serves the intended purpose.

Where do we go from here?

Legislative reform is legally constrained by Proposition 64 and the political landscape that comes with it. The multi-year efforts leading up to the recent legislative victory to eliminate the flat rate tax on wholesale cannabis is illustrative of these challenges.

Every policy approach to expand California consumer access to the regulated market must be undertaken simultaneously and earnestly. A pathway for direct to consumer sales for small farmers and manufacturers is urgently needed if small-batch producers are to have any hope of surviving in this market landscape. This aspect of the solution is much more in reach than tackling local control or a reduction of the excise tax rate via legislation, and therefore should be the immediate thrust of an urgent effort by the State to mitigate the crisis underway.

Comments on the proposed regulations.

We have reviewed the proposal in detail, we have no further comment on the proposed regulatory implementation of the statutory requirement to allow for the issuance of Type 5 Licenses beginning in 2023.

We urge the DCC to work with stakeholders to explore solutions to the crisis facing our legacy cannabis farming community and the regulated market as a whole, as outlined above.

Thank you for the opportunity to comment.

Sincerely,



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