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To: Chair Griffith, Vice Chair Senator Klausmeier and members of the Finance Committee

From: Trilogy Wellness of Maryland

Date: March 8th, 2023

Re: SB0516

Good morning, Chair Senator Griffith, Vice Chair Senator Klausmeier and members of the Finance Committee,

First, I would like to thank the Chair's and members of the Economic Matters Committee for the opportunity to provide feedback, a critical piece of legislation for the future of cannabis reform. Trilogy Wellness submits our favorable testimony with consideration for a few amendments. President, COO and Veteran Herman Dunst's, feedback stems from significant experience in law enforcement, COMAR regulations and auditing, agriculture, and supply chain management. Megan Hughes, the Chief Policy & Social Responsibility Officer and General Manager of Trilogy Wellness has a proven track record of effective dispensary management, a Master's in Medical Cannabis Science and Therapeutics, and is currently in her final semester at the prestigious Georgetown University's McCourt School of Public Policy pursuing a Master's in Policy Management with a concentration in social equity and diversity. Trilogy has been operational since 2018 and has found success as an independent dispensary in a competitive market.

Trilogy Wellness was early to enter the medical cannabis market, first opening our doors in March of 2018. As an independent dispensary we have personally experienced the challenges that can be experienced in the cannabis industry. Trilogy was founded on the principles of health, wellness, and community; as such we strive to not only advocate for our business needs, but also for the social and economic wellbeing for all. Trilogy Wellness is in overall support of HB0556, provided there are amendments and clarification on several key components: number of licensed dispensaries, required conversion fee, definition of licensees, and equality of operations across all licensees.

As you know, sound and successful public policy is rooted in evidence-based practices and quality data analysis. Trilogy commends the State of Maryland for their efforts to build HB0556 with these principals, but strongly believe there should be additional amendments to several key issues.

Dispensary Repacking

The most recent update to HB0556 removed the ability for dispensaries to purchase cannabis in bulk to repackage prior to sale. I believe our experience as an independently owned and operated dispensary can shed light as to why this regulation would negatively impact dispensaries and result in an inequitable outcomes. The ability to purchase and sell this way is the business model that allowed Trilogy to compete, and ultimately find success in a highly competitive market. Independent dispensaries are at a disadvantage in profit margin compared to vertically integrated companies and limited to the products and prices they are willing to offer. When creating our repacking procedure we were able to increase our profit margins compared to purchasing prepackaged products. Additionally, when repacking in house a dispensary can decide what volume their specific patients purchase, this more accurate inventory results in quicker inventory turn thus a faster cash flow and increased purchasing capacity.

The repack process, when following appropriate Standard Operating Procedures, is a strictly monitored process. Over the last 5 years Trilogy has engaged in many conversations with enforcement over the process of repack process. We believe that with an enhanced understanding of the process and a standard industry SOP there is no added risk of diversion compared to any prepackaged product. President and COO Herman Dunst has extensive experience in agriculture, inventory control, six sigma in addition to a law enforcement background, auditing and creation of COMAR regulations. We would gladly share our process and model that we believe results in a meticulous and compliant process that benefits the industry as a whole.

When conducting a racial impact analysis of the proposed regulation we find it this restriction would most significantly impact social equity applicants. As explained operators benefit from the reduced costs of this production, returning quicker cashflow, a crucial aspect of a cannabis operation. Social Equity applicants often do not have the same access to capital as their privileged peers. Additionally, this process creates additional jobs at dispensaries across the state instead of isolating the increased employment to growers and processors. Considering these factors we strongly believe the benefits of the business opportunity outweigh fears of diversion and would recommend this regulation be amended.

Demand Study

We recognize there is no perfect calculation but believe the demand study lacked several key factors and fear the proposed 300 licenses could over saturate the market and threaten the success of the program moving forward. Over saturation drives up operating costs as additional marketing and more competitive pricing squeeze resources and profit margin. The increased competition will disproportionately impact small businesses as they do not have the capital of multi-state operators. Additionally, the issues accessing capital in an all cash business significantly impacts minorities as they are historically less likely to have the same access to capital as their white counterparts. These constraints can squeeze the very operators that Maryland is attempting to support out of the industry. During the Covid 19 pandemic the cannabis industry saw an influx of M&A activity as companies fought their way to survive, consequentially that same period saw a significant decrease in minority and women owned cannabis operations. It is reasonable to question the potential causation between the two.

The first area we believe needs to be reevaluated is the predicted future consumption of cannabis. The analysis provided in the demand study was based on the consumption in 2022. Nationally, it is recognized that the pandemic inflated cannabis sales, followed by a decline and price compression, trends which has been seen in Maryland as well. Further analysis that considers the impact of the global pandemic may show lower than predicted usage trends. Medical patients also have a more inelastic demand for cannabis compared to the elasticity of the adult use market as they are purchasing a medication. Furthermore, in regards to the analysis of the current per capita consumption, there was no mention of consideration on the amount of cannabis purchased by medical patients but diverted to non-medical patients, thus survey results may be over representing predicted use.

The study also provides contradictory recommendations in regards to the number of dispensaries per location. One of the major supporting factors for the number of proposed dispensaries is the percent of residents who walk as a form of transportation in Baltimore City. One section as the report recommends that there be 75 dispensaries in Baltimore City, however later in the report recommends areas for the most dispensaries to be Montgomery County (48). There is significant evidence that in the report about the importance of safety and delivery, comprehensive delivery service in Baltimore City maybe more beneficial to the residents and operators. Residents do not have to be concerned about walking with their cannabis, and operators who have historically avoided Baltimore City will be more apt to operate there. Lower overhead costs is also beneficial as the median income for Baltimore City residents is \$54, 124 vs the state average of \$85,000.

Conversion Fees

We are appreciative to be granted access to the adult use market and the need for the proposed fees to support the roll-out of the program and social equity funding. The recently proposed 18-month payment period is greatly appreciated as opposed to original legislation but believe there is a benefit to considering a longer payment period or reassess fee amounts.

Thank you to the members of the Economic Matters Committee for the opportunity to provide feedback on SB0516. We are happy to answer any additional questions.

Respectfully,

Herman Dunst & Megan Hughes