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Senate Commerce and Consumer Protection Committee,

Dear Chair Klein and Committee Members,

As a long-standing Minnesota resident and enthusiastic prospective legal cannabis operator, I am writing to you and the committee to express our sincere concerns regarding the pitfalls of implementing an application lottery system that was recently proposed by the Minnesota Office of Cannabis Management. It is our goal at Perduco Ventures to help create an equitable and thriving recreational marijuana market in Minnesota that supports social equity considerations while also implementing rules that acknowledges the realities and need to simultaneously have strong commercial operators.

Members of my team and I have significant experience in the industry going all the way back to the beginning of Colorado's 2014 launch of their recreational marijuana market. This decade of working with both plant touching businesses and ancillary providers has given us a keen understanding into the unique economic dynamics that legal marijuana markets require to be successful from all three crucial perspectives. First, the state's need for a well-functioning industry that generates high, consistent tax revenues. Second, the end consumer's need for a wide range of safe products to consume, and third, the operator's need for a stable, cohesive regulatory environment without an oversupply of competition. We fully recognize that balancing these three elements is an extremely tricky task, but also feel that the original legislation that was passed to enshrine adult Minnesotan's legal right to purchase cannabis was constructed very thoughtfully, especially in regard to implementing a merit-based scoring system for operator applications.

Legal marijuana markets, especially at their beginnings, are only as good as the operators that inhabit them, so having a mixture of business owners with deep previous experience as well as net new owners is important to create adequate product supply. To that end, one of the most important aspects that must be considered when determining how would-be license holders are vetted is the strength of their funding prospects. Given the federal illegality of cannabis, investment dollars are generally only accessible to the most qualified candidates. Without access to open capital markets, and with reliance on private funding in the cannabis industry, success heavily depends on being either wealthy or a well-capitalized and experienced operator with investors willing to bear the inherent risks.

This is an especially important consideration for social equity applicants as the current proposal to mandate a controlling interest will severely hinder their ability to raise the large

sum of funds, often in the millions for even modest sized businesses, necessary to operationalize those licenses. While in a vacuum the proposed updates to the statute by the OCM concerning these matters may sound like a good idea, in practice both the lottery system and unrealistic ownership requirements are deeply unfair to social equity candidates as this combination will sharply reduce their opportunities to benefit from this once in a lifetime opportunity in Minnesota.

In our view, to ensure the success of the social equity program in the federally illegal cannabis industry and to mitigate potential litigation, the original merit-based system is realistically the fairest for all prospective operators, SEA and commercial alike. The original legislation intended a lottery to occur only in the event of tied, merit-based applications, which we strongly agree is the most intelligent approach to any kind of license related lottery. Critically, social equity applicants should be required to maintain no more than one-third ownership, although many will often have far less than that in the end if they can secure enough capital regardless. The merit-based scoring system would enable experienced operators and capital partners to guide their businesses efficiently, thus generating tax revenue more swiftly for the state.

Based on our experience, the inclusion of any social equity components in the licensing processes tends to invite litigation no matter what license approval strategy is pursued. Therefore, simplifying the process and ensuring alignment between commercial operators and social equity applicants through a unified, merit-driven application system would help streamline the process and provide a fair chance for all applicants to succeed in quickly creating a flourishing recreational cannabis market in Minnesota from the start.

Thank you for considering these insights as you develop the licensing process for the cannabis industry in Minnesota.

Sincerely,

John Harned and the Perduco Ventures team