



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of Commerce, Community,
and Economic Development**

ALCOHOL & MARIJUANA CONTROL OFFICE

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February 17, 2018

Representative Paul Seaton, Co-Chair
Representative Neil Foster, Co-Chair
House Finance Committee
Alaska State House
Juneau, Alaska 99801

Dear Representatives Seaton and Foster:

During the House Finance Committee's February 13, 2018, hearing on House Bill 273, Extending: Marijuana Control Board, I was asked to provide information regarding the status of marijuana licensing, how the enforcement unit establishes priorities between the marijuana and alcohol programs, and why fees from marijuana regulation are not yet covering operating costs for the marijuana program.

Status of Marijuana Licensing

At present it takes approximately six to seven months from application initiation to Marijuana Control Board consideration, if an applicant turns all documents and corrections in timely and complete. This timeframe includes required advertising, initial application review period by Alcohol and Marijuana Control Office (AMCO) licensing staff, and application corrections and revisions. Due to the number of applications and turnover of licensing staff at AMCO, the initial application review period is currently approximately four months. Depending on the time it takes an applicant to make needed corrections, the total review period can be longer.

Currently, AMCO has five examiner positions, four of which are filled. However, only one examiner has been at AMCO longer than one year. Training of newer examiners on marijuana application processing is ongoing, so the four month review period will shorten in the coming months.

Additional examining staff could eventually shorten the application processing time, but the effect would not be immediate due to the time needed to hire and train new staff, and would slow AMCO's efforts to fully support the marijuana program through fees.

Enforcement Priorities

Legislative Audit's sunset audit reviews for both the Marijuana Control Board and the Alcoholic Beverage Control Board include a finding that the applicable board, the director, and the enforcement supervisor should work together to formally establish an enforcement plan to direct AMCO's enforcement resources. The Department of Commerce, Community, and Economic Development concurs with the recommendations in both audits.

AMCO has eight investigators. Five (including the supervisor) are located in Anchorage, one is in Juneau, and two are in Fairbanks. All investigators work on both marijuana and alcohol issues. There are currently approximately 1,900 alcohol licenses and approximately 170 operating marijuana licenses.

Although there is not a formally adopted enforcement plan yet, our foremost priorities are that all new licensees of both programs are inspected before they begin initial operations, that all complaints are evaluated, and that complaints with merit are fully investigated.

As Chief Investigator James Hoelscher and I work with the Marijuana Control Board and the Alcoholic Beverage Control Board to formally establish an enforcement plan in accordance with the audits' recommendations, we will be considering other potential enforcement priorities such as how often each licensed premises should be visited by an investigator, compliance checks, outreach, and education.

Becoming Self-Supporting

Statute and legislative intent indicate that the Marijuana Control Board should set fees to cover marijuana program costs, so that, similar to the alcohol program, the marijuana program is funded entirely by fees and uses no unrestricted general funds. AS 17.38.190(a)(2) directs the board to set application fees not to exceed \$5,000 unless the board determines a greater fee is necessary to carry out its responsibilities.

The yearly license fees have been set as follows:

- Standard cultivation, product manufacturing facility, retail store license fee: \$5,000
- Limited cultivation, concentrate manufacturing facility, testing facility license fee: \$1,000

The fee for a new or transfer application is \$1,000, for a renewal application is \$600, and for a handler permit is \$50. The fee to change an approved application is \$250. AMCO remits half of each application fee to the local government, once an application is determined to be complete.

Clearly, a certain number of licenses must be issued and regularly renewed in order for the marijuana program to be funded entirely from licenses. The number of operating licenses grows with time, but staff is needed to review applications and enforce regulations from day one, before sufficient fees have been collected to fully fund the program. The number of licenses needed to fully fund the marijuana program depends on the license types, as different license types submit different license fees. To date, AMCO supports the following operating licenses:

129 licenses paying a \$5,000 license fee	\$645,000/year
45 licenses paying a \$1,000 license fee	\$45,000/year
<u>Renewal application fee for 174 licensees</u>	<u>\$104,400/year</u>
Total	\$794,400/year

The program receives additional funds from new applications (the new application fee is \$400 more than the renewal application fee), handler permits, transfer applications, and license change fees, but

Representative Seaton
Representative Foster
February 17, 2018
Page 3

we are not yet taking in sufficient funds to meet our yearly operating costs of approximately \$1.8 million.

AMCO cannot currently project exactly how long it will take for fees to fully cover program costs due to multiple unknowns related to the commercial marijuana industry. Commercial marijuana operations have been in effect for only one full fiscal year, so licensing and revenue trends cannot yet be determined. AMCO cannot estimate how many of which license type will become operational at what time, or whether or not all licensees will remain in business. For example, there are 15 licensees who were approved by the board in 2016 but are not yet operating, meaning those licensees are not yet required to pay a license renewal fee. The industry is still developing and has not yet stabilized with the number of licenses appropriate to meet demand for marijuana in Alaska. If annual revenues increase by 10 percent per year, we anticipate the marijuana program will be fully self-supporting by FY2023. Between FY2020 and that time, marijuana licensing receipts that are carried forward in the operating budget will bridge the gap between revenues and expenditures so that no additional general funds will be needed after FY2019. Additionally, the Marijuana Control Board may decide to re-evaluate license and application fees in the next year or so.

Sincerely,

A handwritten signature in cursive script that reads "Erika McConnell".

Erika McConnell
Director

Attachments: Marijuana Licensing Flow Chart
Marijuana Regulation History Presentation