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Representative Dan Pabon - Chair
Senator Randy Baumgardner - Vice-chair
Legalized Marijuana Cost-Benefit Analysis Interim Study Committee

Dear Members of the Committee,

I would like to first offer my thanks for the opportunity to address this committee. While, as I stated in my introduction letter to the committee, I don't have strong views about the legalization of marijuana one way or the other, I do strongly believe that since it has been legalized, we, as a state, should do everything in our power to assure this is managed to the best interests of our citizens. Since I sent the introduction letter last week requesting the opportunity to provide testimony to the committee, I have been called out of the country on business and unfortunately will not be able to attend the meeting. However, I have put down my thoughts for consideration in the following letter, which I hope provides beneficial input for your consideration.

By way of introduction, I am the CEO and a founder of Source Certain International, an international company headquartered in Singapore providing supply chain security services. My home is in Grand Junction, Colorado, where Source Certain has established its North American operations.

I have organized my comments consistent with the stated policy issues included in the committee's charge. The following thoughts are relative to the societal costs associated with the legalization of marijuana in our state.

- Any situation that encourages honest people to become criminals represents a cost to our society. I am a CPA by background and one of the principles I learned very early in my career in business management is that operating a financial management system with faulty controls in place is not only dangerous for the business, it is also puts undue pressure on honest people to remain honest. I strongly believe, having seen this result in personal acquaintances, this is a significant consequence directly related to our legalization of marijuana and the controls and management processes which accompany it today. There is simply too much easy money available with marijuana today to ignore the fact that if we make breaking the law easy, there unfortunately, will be a number of people who ultimately will take advantage of the situation - and some of these people, in my experience would never have considered breaking the law prior to being presented this opportunity.

The most pressing situation of this nature may be the unlicensed marijuana programs. The unlicensed aspects of our marijuana program, (personal grow & caregiver), both represent situations where the State of Colorado has virtually no way to manage or control the flow of personal and/or caregiver grown marijuana. It is unrealistic for us to believe that significant quantities of this unregulated production of marijuana is **not** being sold into unauthorized channels, both inside and outside of our state. The magnitude of the profits available inside this unlicensed industry are simply too large to ignore. Consider the following financial implications. Personal growers can legally grow and harvest 6 plants. If they produce an average of 24 ounces per plant per year, that represents 144 ounces of marijuana per year. The legal retail prices for this marijuana range from \$200 to over \$800 per ounce, so using a black market value of \$400 is not unreasonable, which means the revenue potential for each plant is \$9,600. If a person is complying with the 6 plant limit, (and I don't know what incentive they have to do that if they are planning to break the law by selling it), this puts the cash opportunity at nearly \$60K per year – and this is cash money which they will pay no taxes on of any sort – and, under the existing environment, have very little, if any, exposure to being caught.

The caregiver situation is even worse, given that caregivers are allowed up to 99 plants – and that is per patient! That calculation for 99 plants is nearly \$1M in tax-free cash.

- I believe that at a minimum, our State has the obligation to put in “reasonable” controls to prevent illegal activities. Having these significant aspects of our marijuana program largely unregulated and uncontrolled is simply asking for trouble. The State cannot be expected to take responsibility for what it doesn't know about. This situation is an open invitation for crime – both organized and unorganized, to come to our state and take advantage of the situation we have created. This can be addressed by putting minimal controls on the unlicensed industry starting with registration of the production. The State cannot manage what it doesn't know about. Registering unlicensed grown marijuana gives the State the ability to implement measures designed to limit this unlicensed marijuana to the uses intended – which is for personal and patient consumption. A recent published interview with past US attorney for Colorado, John Walsh, highlights this issue and supports the magnitude of the issue.

Relative to existing gaps in the information being gathered and/or specific issues:

- While I have supported in the past, and continue to support, the efforts in place to manage and control our licensed marijuana industry, I do believe we can do more to assure the control of the licensed marijuana and assure it is not being diverted outside the legal supply chain we have created. We need to assure the existing controls are being fully implemented and utilized to assure the integrity of this supply chain, while at the same time continuing to improve the tools employed to assure our supply chain is working effectively. The ability to manage primary agriculture is a significant challenge regardless of the product. However, with marijuana which has material black and/or grey market value, and is virtually impossible to identify once it leaves the growing location – regardless of the tracking system in place – the challenge is huge. New technology to accurately identify sources of marijuana from down the supply chain need to be

developed and implemented, in combination with aggressive reporting of key management statistics related to the production and sale of marijuana. Accurate and timely inventory management of all licensed inventories will provide a good basis to review the industry to provide reliable indicators where problems may exist within our licensed industry. This allows efficient use of available law enforcement efforts.

- The licensed industry is generating considerable wealth to participants. Margins exist to fund the necessary oversight to assure the integrity of the legalized supply chain. Colorado needs to determine the controls and processes required to assure they are in control of this legal supply chain, and then devote the effort to the required legislative approvals for implementation. Once approved, aggressive reporting of the key process indicators identified within the management system must be required and any discrepancies followed up and resolved. Having regulations and/or laws which cannot be reliably administered only encourages criminal activity.

Summary: It is easy to focus on whether the State made a good decision in their approval of the legalized marijuana program. That decision has been made, and now we have two choices. We can address the situation we have and make the best of it, and/or we can gather accurate and reliable information and try to remedy any potential mistakes made. I believe for Colorado, relative to the legalized marijuana program, we should be doing both. The first step to address a problem is to accurately define and identify it. Gathering data to accurately define existing problems is critical to providing solutions. With this information, solutions can be found and/or developed. This is certainly one very beneficial area this committee can focus on.

At the same time, “best management” practices do exist for managing our licensed and unlicensed programs. The best and most up-to-date processes and procedures available need to be employed to support and manage these programs. We need to assure these controls are effective and reliable – on paper as well as in practice. If it won’t work on paper, it cannot be expected to work in practice. I believe it is the responsibility of our lawmakers to lead this effort to assure the program, authorized by the citizens of Colorado, is administered to provide benefits to those citizens participating in the program without harming the citizens who chose to not participate in the program. We need to assure our state does not become a haven for criminals – nor should we encourage our law-abiding citizens to become criminals. The most pressing issue we face today as a state, I believe, is our unlicensed marijuana program. The first step in gaining control of this program, is identification of the participants. Without knowledge of the existence of the unlicensed program, it is unrealistic to believe we can control or manage what it does. Once this knowledge is available, the State has significantly more options available to assure this production is going to its intended consumers and not being diverted to illegal supply chains.

Glenn McClelland