

**MINUTES OF THE JOINT MEETING
OF THE
ASSEMBLY COMMITTEE ON JUDICIARY
AND THE
SENATE COMMITTEE ON JUDICIARY**

**Seventy-Ninth Session
May 3, 2017**

The joint meeting of the Assembly Committee on Judiciary and the Senate Committee on Judiciary was called to order by Chair Tick Segerblom at 6:09 p.m. on Wednesday, May 3, 2017, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/App/NELIS/REL/79th2017.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblyman Steve Yeager, Chairman
Assemblyman James Ohrenschall, Vice Chairman
Assemblyman Elliot T. Anderson
Assemblywoman Lesley E. Cohen
Assemblyman Ozzie Fumo
Assemblyman Ira Hansen
Assemblywoman Sandra Jauregui
Assemblywoman Lisa Krasner
Assemblywoman Brittney Miller
Assemblyman Keith Pickard
Assemblyman Tyrone Thompson
Assemblywoman Jill Tolles
Assemblyman Justin Watkins
Assemblyman Jim Wheeler

ASSEMBLY COMMITTEE MEMBERS ABSENT:

None



SENATE COMMITTEE MEMBERS PRESENT:

Senator Tick Segerblom, Chair
Senator Nicole J. Cannizzaro, Vice Chair
Senator Moises Denis
Senator Don Gustavson

SENATE COMMITTEE MEMBERS ABSENT:

Senator Aaron D. Ford
Senator Michael Roberson
Senator Becky Harris

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Diane C. Thornton, Committee Policy Analyst
Patrick Guinan, Committee Policy Analyst
Brad Wilkinson, Committee Counsel
Nicolas Anthony, Committee Counsel
Bonnie Borda Hoffecker, Committee Manager
Erin McHam, Committee Secretary
Pat Devereux, Committee Secretary
Melissa Loomis, Committee Assistant

OTHERS PRESENT:

Deonne E. Contine, Executive Director, Department of Taxation
Joseph L. Pollock, Deputy Administrator of Regulatory and Planning Services,
Division of Public and Behavioral Health, Department of Health and Human
Services
Riana Durrett, Executive Director, Nevada Dispensary Association
Andrew Jolley, President, Nevada Dispensary Association
Larry D. Smith, Chief Executive Officer, GFIVE Cultivation, Las Vegas, Nevada
Will Adler, Executive Director, Sierra Cannabis Coalition
Amanda N. Connor, representing Nevada Cannabis Coalition
Wes Henderson, Executive Director, Nevada League of Cities and Municipalities
Bronwen Nikora, Director of Administration, Solace Holdings, LLLP
Matthew McClure, General Manager, Wellness Connection of Nevada, LLC
Ian Miller, Chief Executive Officer, Solace Holdings, LLLP
Samuel P. McMullen, representing Independent Alcohol Distributors of Nevada

Chair Segerblom:

[Roll was called.] I am going to assume the Chair duties. We have asked the Department of Taxation to come explain their early start regulations. We do not need a full briefing, but we would like to know what is going on. If you have anything that the regulations require us to do, we would like to know about that. We have asked people who are involved in the industry if they have seen the regulations or if they have questions or concerns to voice those as well so that we have a full understanding.

Assemblyman Ohrenschall has to make a disclosure.

Assemblyman Ohrenschall:

I do not want to get into the weeds in this hearing. Chair Segerblom and Chairman Yeager, I have a disclosure to make before you start today's joint session of the Assembly and Senate Committees on Judiciary. Because we are considering proposed regulations regarding the future sale of recreational marijuana, I would like to advise you and your Committees that my wife is employed as the Executive Director of the Nevada Dispensary Association—a trade association consisting of medical marijuana dispensaries and medical marijuana cultivators—which actively lobbies the Legislature and other governmental entities on issues affecting its members. I have sought the advice of our Legislative Counsel. Although these proposed regulations that your Committees are considering do not affect the members of the trade association that my wife is employed with any differently than any other medical marijuana dispensary owners and medical marijuana cultivators, I am making this disclosure out of an abundance of caution. I plan to abstain on any votes on these proposed regulations. Based on the advice of our Legislative Counsel, I am permitted to be present during this evening's hearing and the discussion related to these proposed regulations.

Chair Segerblom:

Director Contine, we are impressed with what you have done, and the fact that this process may actually come to fruition around July 1 is a miracle in itself. We will do whatever we can to make that happen.

Deonne E. Contine, Executive Director, Department of Taxation:

Question 2 was adopted by voters in November 2016. It legalizes the possession of one ounce of marijuana or one ounce of concentrate. It also requires the Department of Taxation to adopt regulations to regulate the marijuana industry and to implement the legal sale of marijuana no later than January 1, 2018. The Governor has included in his budget for the next biennium approximately \$70 million of revenue from the retail marijuana program. As such, the Department was tasked with implementing an early start program. I am going to talk about the various processes that are going on right now.

The temporary regulation program is what I am going to go over with you and explain what we are going to be asking the Nevada Tax Commission to adopt next week. We also have a permanent regulation process, but because we are not in the permanent regulation process under *Nevada Revised Statutes* (NRS) Chapter 233B, we will not be officially starting the

process until July 1, 2017. However, the Governor did create a task force, which some members of the Legislature are participating in, and there are various work groups reviewing topics and fleshing out issues as we move into the retail regulated market. There are a lot of different processes occurring at the same time, including the process at the Legislature, where you are working on legislation that addresses either the medical or the retail program.

The Department has drafted temporary regulations to allow for the early start of the retail marijuana program, with sales expected to begin around July 1, 2017. The proposed regulations seek to strike a balance as we move into the legal marijuana market. It is balancing a few important interests. The first is the state's interest in revenue; second, the industry's desire to enter the retail market; and probably the most important from a regulator's standpoint is the need to tightly regulate a safe market that protects the public safety and public health.

I am going to talk about a few of the key components; I am not going to go through the dense document ([Exhibit C](#)), but I am going to talk about the key components of the early start program and the requirements to come into that program. The early start program will allow existing medical marijuana establishments (MMEs) that are currently licensed and regulated by the Division of Public and Behavioral Health—including the cultivators, producers, dispensaries and independent labs—who are operating and in good standing under their MME license to apply for a temporary retail marijuana establishment license. The application deadline is May 31, 2017. The deadline is in place so that we have an opportunity to review the licenses and issue the licenses for the July 1 start date.

Good standing means the medical marijuana licensee has not had his registration certificate suspended in the last six months for any violation other than an administrative violation. This is a six-month license because we will be moving into the permanent program in January. The rationale behind that period is to look back six months to see who the best actors are under their MME licenses—the ones who have not committed any major infractions or been suspended by the Division of Public and Behavioral Health (DPBH). The second requirement is that they are operating. That means that the medical marijuana establishment has filed a return and paid the medical marijuana excise tax prior to May 31, 2017.

When we first started the regulatory process, we had a list of requirements that, in working with DPBH, we thought might represent what types of infractions people might have. We reviewed them and realized that this included 95 percent of the people, making them ineligible to apply for a retail license because it was very minor things—if they got a deficiency, which they get all the time. If they respond to the deficiency, provide a plan of correction, and work with the DPBH to make sure they are on the right track and it does not lead to a suspension, we discussed these things with DPBH and other industry folks and came to a consensus and a bit of a compromise in how we can tightly regulate this but still allow people to go into this new market.

The second thing we talked about in terms of an operating requirement was that people are going to be ineligible because they are getting their MMEs too late to qualify for the May 31 deadline. They will get an MME in June or July and get their registration certificate. In thinking that through, we amended the regulations to provide for the opportunity to have one additional licensing period of not more than five days between the May 31 deadline and the January 1 start date.

As long as the MMEs meet the requirements of operating and being in good standing, have paid the required fees, and have all of the zoning and business license approvals from the local government, they will likely receive an early start license.

Chair Segerblom:

Would they have to have something from the local government by May 31?

Deonne Contine:

Logistically, we realize that is not possible. We will take the applications and review them. We will have a section on the application that talks about their communications and their plans for local zoning. To the extent that they are working with the local governments and in the process of following through, if they qualify in every other way, they will get a license conditioned on that zoning sign-off. They will be able to start once the local government has made that determination.

Chair Segerblom:

I know that Henderson has a moratorium. If they do not lift that moratorium until August, as long as the business applied before May 31, when that moratorium is lifted and Henderson gives them the okay, would you go forward with that?

Deonne Contine:

That is correct.

Assemblyman Thompson:

I have a question on section 12, subsection 2 ([Exhibit C](#)) regarding the establishment of the license fees. Could you share with us the reasons why the amounts are so different?

Deonne Contine:

Those amounts were in the ballot question. We did not set those fees; they were set by the ballot question. We simply pulled them into the regulations.

Assemblyman Thompson:

Even though they were previously established, have you had any feedback on some of the potential vendors as to whether it is a fair fee? Is there any evidence you can bring to our body that it may be too expensive, or is it right on target?

Deonne Contine:

Nobody has complained to me about the fees.

The Department amended the standards during the workshop process, but we maintain that the current standards balance the interests of providing access to the market and rolling out the program in a way that protects the public. Those who are not able to meet the requirements right away cannot show a recent history of operating in compliance with the regulations of the Medical Marijuana Program and do not have proven experience in the legal, regulated marijuana industry. The idea was to go forward with those folks who could demonstrate those qualities.

I do want to talk about one other issue in the regulations that is a little different from the Medical Marijuana Program. In addition to the license categories in the Medical Marijuana Program—cultivator, producer/manufacturer, lab, and retailer/dispensary—the retail marijuana program has the cultivator, the producer/manufacturer, the retail store, and the labs, and the category of the distributor. The marijuana distributor is defined as an entity licensed to transport marijuana from a marijuana establishment to another marijuana establishment. Under the retail program, marijuana can only be transported to a marijuana retail store by a licensed marijuana distributor. Question 2 also provides that "For 18 months after the Department begins to receive applications for marijuana establishments, the Department shall issue licenses for marijuana distributors pursuant to sections 1 to 18, inclusive, of this act, only to persons holding a wholesale dealer license pursuant to NRS Chapter 369, unless the Department determines that an insufficient number of marijuana distributors will result from this limitation." Question 2 favors the NRS Chapter 369 wholesalers, but this group has some barriers to entry into the regulated marijuana market. In fact, the vast majority of the liquor wholesale dealers are not interested in applying for a marijuana distributor license.

I would like to talk about the license requirements from Question 2, now codified as NRS Chapter 453D. These are the license requirements that are similar to the license requirements that all medical marijuana establishments had to go through in order to get their medical marijuana registration certificate. That is why, in opening up the market to them, we know they have already gone through the licensing process for their medical marijuana establishment license. They are going to fit these categories. As long as there are no additional people, as long as it is the same entity that has the medical marijuana license, those folks will have already gone through this process.

The requirements to obtain a license under Question 2 are owner background checks; location requirements that I talked a bit about in the beginning with respect to the MME zoning; they must own or have written permission from the landlord of the physical address where they propose to operate the establishment. If the local governments and the landlords allow businesses that are already operating, they will just slide into the retail market. For people who are new coming into the regulated marijuana market, they will have to go through the process. They will have to get the written permission or they would

have to own the building. They have to comply with the local government business license zoning and distance requirements, and they would have local government and state inspections that are required by law. There are also security requirements, including securing facilities and maintaining security equipment, and ensuring that all employees have completed background checks. Under the Medical Marijuana Program, everybody who works as an agent for an MME or in the industry has to be background checked by the DPBH.

Finally, there are federal licensing issues that alcohol wholesalers have. They also have a federal license. If they are dependent on the federal government for their license, they may have some difficulty operating in a business that transports a federally prohibited product. Given that, the Department believes that there could potentially be zero alcohol distributors who would qualify or be prepared to obtain a marijuana distributor's license to serve the market starting on July 1. Without licensed marijuana distributors, the marijuana program cannot operate because nobody other than a licensed distributor can transport marijuana to a retail store. Based on that, the draft regulations provide that, in addition to the NRS Chapter 369 wholesale dealers, the Department will accept applications from current MMEs who are operating in good standing and any additional entities that have been operating in transporting marijuana under the Medical Marijuana Program and have gone through the background check with DPBH, so that all of their employees have agent cards and have been fully vetted through that process. The reason that these entities are included in this process is they have gone through the vetting with DPBH, and under the Medical Marijuana Program, there is no required license to distribute, so either the medical marijuana establishments transport their own product or they hire a company to do so. Opening up the application process to those entities will allow the Department to issue those licenses once it makes a determination.

When we initially drafted the regulations, we made the determination that there would not be enough wholesale liquor dealers to apply for these licenses. In a revised version, we took that out of the regulation because they wanted the opportunity to apply and show that they are ready. The rationale for making that determination in the past was the barriers to licensing that could exist based on the federal licensing issue.

Assemblyman Hansen:

Could you elaborate on the barriers? Are you telling me that we are deliberately setting up regulations that bypass all of the federal laws to allow these people to do it because the liquor people cannot without losing their licenses?

Deonne Contine:

The barriers to licensing for entities that are not already in the marijuana market are the barriers that I talked about previously. These are all in Question 2; they are not the regulations. They all have to go through the background checks for the crimes that are identified in the statute. They have to have written permission from their landlord to operate a marijuana establishment, or they have to own the building in which they are located.

They have to have the proper zoning, which means that they have to have a special use permit or some other type of zoning.

Assemblyman Hansen:

I am talking about the federal regulation. You mentioned that the liquor distributors cannot do this because they will lose their liquor licenses since they will be violating federal law.

Deonne Contine:

I am not saying that they cannot do it because they will lose their license; I do not know if that will happen. If it comes down to the issue of, "Am I going for the license in the marijuana industry? I have gotten some indication from my federal licensee, and I am not going to go forward." If that were to happen, there would be nobody to transport the product so there would be no program. Because we do not know how they can get through that process and whether that federal license will be a barrier, which is the basis for opening it up to those additional categories.

Assemblyman Hansen:

Did the ballot question specifically allow only those currently licensed people to be the distributors?

Deonne Contine:

It says that for the first 18 months the Department should issue licenses only to those NRS Chapter 369 wholesale dealers unless we determine that there are an insufficient number of those licensees to serve the market. Under the barriers, there could be zero people who would apply or be ready to go to serve the market. That is the basis for including the other folks, so that when we get to July 1, we will have some people who could step into the distributor position and who can make it so that the program can begin.

Assemblyman Fumo:

Do you have any examples of other states, like California and Colorado, that have reconciled the federal and state law as far as transportation goes?

Deonne Contine:

I am not sure that other states have this barrier. They might have a licensed transporter or distributor, but I am not aware of another state that has limited it in the way that the ballot question did initially to those entities that have some other type of federal license. I do not think that exists in the country. Our ballot question gave them the first right if they could be prepared to serve the market. I do not think that has ever occurred elsewhere.

Chairman Yeager:

You talked about the period of five business days when the licensing would be reopened. Did you have an idea of when that might happen between July 1 and January 1? Did you envision it would be five consecutive business days, or would it be sporadic?

Deonne Contine:

It says one additional period of not more than five days. That was meant to indicate that there would be one additional opportunity to obtain a license. We would leave that application period open for five days. Logically, I think it will be right in the middle of the temporary period. The goal is to move forward with licensing on July 1, get the people who are already currently operating in good standing going, have a little bit of time—a month or two—to regulate them, make sure that we are rolling this out prudently and thoughtfully, that the people who have gotten this license are doing the right thing, that we are not having problems as we move into more people having access to the product, and then open it up. I would say two to three months. That is the thinking. It gives us just enough time to prudently go forward and figure out where we are, and then open it up once we have gotten through the first wave of applications and once people have been operating.

Chairman Yeager:

There is a six-month requirement in here. Will that six months start from the date of suspension, or would it start from the date of the reinstatement? Have you thought about how to measure that six-month period? I could foresee a scenario where a license gets suspended, they are working on correcting the issue, but it takes them some time. When would the six months start?

Deonne Contine:

The intent was for it to be from your suspension to the date of the issuance of the license. You bring up an interesting issue that I had not completely thought out. If somebody has been suspended and is not yet off of suspension when they apply, we are not going to accept their application. That may need to be clarified a bit. The intent was to have it begin July 1, when we issue the licenses, going back six months.

Chairman Yeager:

If everything goes according to plan and the regulations are adopted, do you anticipate that there will be physical retail sales on July 1?

Chair Segerblom:

Are you asking for a friend?

Deonne Contine:

I anticipate that the state's portion will be completed. I do not know about the local government. I am sure that there are a lot of people in the room who are working on that and they might have some insight into that. That is our goal and some of the local governments are treating that as a goal as well.

Those are the main high points of the regulation. There are a lot of details, but those were the main points that were worked out. A consensus was built around those rules going forward. We have worked on these for the last two or three months, and we are planning to ask the Tax Commission to adopt them on Monday. Our goal is to have the applications available on the Department's website around May 15, 2017.

Assemblyman Hansen:

I am looking at the ballot question. It reads, "For 18 months after the Department begins to receive applications for marijuana establishments, the Department shall issue licenses for marijuana distributors pursuant to sections 1 to 18, inclusive, of this act, only to persons holding a wholesale dealer license pursuant to Chapter 369 of NRS, unless the Department determines that an insufficient number of marijuana distributors will result from this limitation." That is where your basis is. None of those NRS Chapter 369 distributors could distribute this without violating federal law, so you are going to eliminate the wholesalers and allow people who do not fit the category that was on the ballot question?

Deonne Contine:

No, for the application period, applications will be accepted from NRS Chapter 369 wholesale dealers, MMEs operating in good standing, and other entities that have been vetted by the medical program. In the event that those NRS Chapter 369 wholesale dealers cannot get a signoff from the landlord where they are located, are not within the proper zoning district, have other issues related to their NRS Chapter 369 license, cannot get the security modifications that they need to get, and they cannot obtain a license, we would have additional people who could serve the market.

Assemblyman Hansen:

Without beating a dead horse, you indicated earlier that virtually none of those people are going to be able to apply because if they do, they will lose their federal license.

Deonne Contine:

That is not what I said. I said that they might be concerned that it would be an issue for them. Because that might be an issue for them, they might decide that they do not want to go forward in this industry. They may apply for a license and they might get a call or knock on the door from their Alcohol and Tobacco Tax and Trade Bureau enforcement saying that they have a federal license and therefore cannot transport a federally illegal product. The additional entities are to ensure that we can go forward and have licensed distributors to serve the market.

Chair Segerblom:

My concern is over the second time period. There are a lot of people who have invested a lot of money in the process but are not going to be eligible under the standards by May 31. May 8 is when the commission will vote on these regulations. Do you have to have a certain amount of time between when you publish them and when you vote on them? The temporary regulations are a unique vehicle. What limitations do you have on temporary regulations?

Deonne Contine:

The temporary regulations will stop by November 1 because of a limitation on the period. We could do emergency regulations to the extent that the MMEs are still operating as MMEs. The regulations are for licensing. To the extent that MMEs are still subject to NRS Chapter 453A, the medical marijuana chapter, and NRS Chapter 453D, the recreational marijuana chapter, that would still be in place.

Chair Segerblom:

The plan is to have the Tax Commission adopt these on May 8, correct?

Deonne Contine:

Yes.

Chair Segerblom:

Do they go into effect immediately?

Deonne Contine:

I believe it is 35 days.

Chair Segerblom:

That would be mid-June. If you decided to pull them back so that you could start again, it would be another 35-day period, correct?

Deonne Contine:

Do you mean if the Tax Commission did not adopt the regulations on May 8?

Chair Segerblom:

Yes, or if you decide to change them. There is a 35-day period between when they are voted on and when they become effective.

Deonne Contine:

That is true, yes.

Chair Segerblom:

When you are looking at these, can the Tax Commission change things, or do they have to vote on exactly what you have presented here?

Deonne Contine:

I would like them to vote on what I have presented here, but there is a little more flexibility in the temporary program. There is not a Legislative Counsel Bureau review or as much oversight on the process. They could change it if they wanted to.

Chair Segerblom:

They could go rogue. I hope not.

Assemblyman Pickard:

I am going through the proposed regulations and even went back to the language of Question 2. I looked at section 10, I searched for any limitations on periods of application, and I am not finding any. What is the rationale for limiting applications to the small windows of time instead of leaving it open like any other application? If you want to apply to get a business license, you can do it any time of the year and then your licensing requirements and annual reports have to be done by that time. Why are we limiting it to such a short period? My concern is that we are going to limit the applications to those who have a head start—they already know the restrictions, are working on these issues, and are already in place. We are just accommodating them by not letting someone else into the market; that is the perception. Can you tell me why we are limiting that to such a narrow window of time?

Deonne Contine:

I have four staff members who are working on this; part of it is a resource issue. This is a new program, and for the early start program, we do not have a large number of staff. In order to have that thoughtful, prudent roll out and make sure that the people who have been operating, have complied with regulated marijuana laws, know the process of regulation, and understand what is expected of them. These are the people who are going to be going first. This is a temporary license by nature; it is only good for six months. The goal is to make sure that people who have been operating for the last several years who have complied with regulations and have experience with regulations of this product are going to go a little early. In that subsequent period, we will be giving that five-day window and allowing for more time. We can evaluate where we are as we roll out this program and open this market. We can attempt to deal with any issues or problems that come up from the legalization of marijuana with the resources that we have. We can then go into the second phase.

Assemblyman Pickard:

You have just deepened my concern. I recognize that resources drive everything in government; we cannot do it if we do not have the people to do it. That seems to be more of a straw man argument in that it is not the purpose of the regulations. The regulation is to set up the right procedures. Then we as a body have to decide if we are going to fund that. Ultimately, it sounds like we are creating a system that is going to give those who are already driving the system a corner on the market. Then we give a little, tiny bit of time for anyone else who wants to enter. To me that sounds anticompetitive. That said, if there is language

and direction that we have to follow that, I do not want to work against what has already been done. If the intent is to only allow those who have been working on this to maintain their corner on the market, that is one thing. If this is truly trying to open it up so that anyone who wants to enter—like somebody who wants to set up a new liquor store—can do what it takes, there is nothing barring them from doing so, provided they go through the steps. As soon as they qualify, they can apply.

Deonne Contine:

Question 2 favors current operators. There is nothing we can do about that. It gives preference to current operators for the first 18 months. The reason to favor people who have been operating in a regulated industry is to know that they have complied with regulations and they are operating in the way that they should be in that industry. As we roll out, we are giving the state some time to build up those resources—I do have that in my budget. The funds will be available on July 1. You have to go through the process, which is sometimes a two- to three-month process to do the paperwork to fill the position, and then get people on board. We are building out, and there is talk about the medical program and the recreational program being combined into one agency. That is how I came to this second application period. We are probably going to be one, we will have some of the regulatory experience, and we will be able to deal with those things that might come up as you enter a newly regulated market. Let us have that option to give a second application period. Once the permanent program starts, everybody is entitled to apply as long as you have an MME.

Assemblyman Thompson:

I know there are certain numbers of approved applications that can come from each jurisdiction. Can you share with us if we are at capacity in each of them?

Deonne Contine:

It is my understanding that under the Medical Marijuana Program there are no additional dispensary licenses available.

Assemblyman Thompson:

Do we have some type of mapping? I am a visual person. Is there mapping that shows where in our state they are all located? Are we going to look to do an overlay once we have the recreational ones in place?

Deonne Contine:

The retail program has more dispensary/retail store licenses than the medical program. There will be additional retail store licenses available. The people who will apply now will have a dispensary operating in good standing. We will not max out retail licenses in the early start program. There are not enough of them. Going into the permanent program, we are working on the regulations. We are doing some task force work, and people are making recommendations. We will be beginning to draft the permanent regulations that talk about

the scoring or qualifications when there are multiple applicants for a limited number of licenses. That will be addressed in the permanent regulations. That will start in January.

Assemblyman Thompson:

Is there a map?

Chair Segerblom:

It is called Weedmaps.

Assemblyman Thompson:

Read the weed. Will there be something so that legislators can see if it is concentrated in our areas or if it is lacking? It is a new industry; it is new opportunities. We should be able to visualize it and say, "My community is doing well in this industry," or "there could be some opportunities."

Deonne Contine:

In addition to Weedmaps, Joe Pollock from the DPBH tells me that they can get something like that based on the current system.

Chair Segerblom:

Is your plan based upon merging the two systems? Will you be having DPBH use their resources to investigate, license, and do background checks?

Deonne Contine:

As to the background checks, as long as they are current on their MMEs—they have to go through annual renewal—we will not be background checking those entities. Outside of the medical program, it will only be new entities that come into the retail market. As we move forward in the session, there seems to be some consensus being built around combining those programs. With that in mind, we are thinking about having that additional application period. That is a more recent change and is based on where we are versus where we were three months ago.

Chair Segerblom:

In January when you apply, do you not have to have a medical license?

Deonne Contine:

Yes, you do.

Chair Segerblom:

Will the medical program be accepting applications continually until January?

Deonne Contine:

I do not believe so. They do not have any dispensary applications available.

Chair Segerblom:

I am talking about growers and manufacturers.

Deonne Contine:

No, they will not.

Chair Segerblom:

What about people who are already in the process and have not yet received their final approval?

Joseph L. Pollock, Deputy Administrator of Regulatory and Planning Services, Division of Public and Behavioral Health, Department of Health and Human Services:

We do not have any plans to open up the application process. The NRS allows us to open it up as we see fit, as there is demand to do so. Thus far, we have not had that.

Chair Segerblom:

What I am thinking of is, for example, Mr. Smith has permission to do a grow, but has not yet reached completion. He is in the process of building that out. Does he count as someone who would be eligible in January to apply?

Joseph Pollock:

As far as we are concerned with the ones who have not opened yet, as long as they are making progress toward opening, we have extended the period when they can do that. They were originally given 18 months. There have been some extenuating circumstances for certain establishments. These certificates were issued in November of 2014.

Chair Segerblom:

As long as you have a certificate, you do not actually have to be open by January 1?

Joseph Pollock:

Yes, that is my understanding.

Chair Segerblom:

We do have a bill [[Senate Bill 487](#)] that would allow some of the rural cities to obtain additional dispensary licenses, which I hope will be effective July 1. In that process you, the medical regulators, would be accepting those applications and processing them.

Joseph Pollock:

Could you clarify? Are you saying that if you have a certificate and you are continuing to progress toward opening, that we would continue to work with that certificate holder?

Chair Segerblom:

Yes, but there is also a bill pending that would allow rural cities to apply for dispensary licenses. In that case, I hope you would consider those applications if that becomes law.

Joseph Pollock:

Absolutely, we would reopen the process. If we have areas that are not served currently and we had applicants, we would open up the process.

Chair Segerblom:

Assuming you have a five-day window on September 1, if someone has a license from Mr. Pollock but has not been able to grow any product until October, that person would not be able to participate in the system under the early start program. Would they be eligible in January?

Deonne Contine:

If they had an MME, they would be eligible to apply. The process for the permanent regulations is being worked on right now, so we will have all of the application criteria worked out at that point. If you have an MME you have the first right to apply for the 18 months after January.

Chair Segerblom:

In looking at the second period for applications, the five-day period, does that person have to be open and running, or can they have one of Mr. Pollock's licenses and be in the process?

Deonne Contine:

We will not consider anyone who is provisional under his or her MME. They have to have their final registration certificate.

Chair Segerblom:

For a grow, is that when you put the marijuana plant in or when the plants are producing and you can sell them?

Joseph Pollock:

The certificate is final once we inspect and allow them to bring product into the facility. When we do our final inspection, there is no marijuana product in the building. When we give them our final approval, that is when the certificate becomes final. They would not already have a grow going; that would be the first day that their certificate was final.

Chair Segerblom:

Do you mean when they start growing their plants?

Joseph Pollock:

It is when they start bringing in product and start growing those—from either clones or seeds.

Chair Segerblom:

On the second five-day window, will you have to show that you have paid taxes at that time, or just show that you received the final license?

Deonne Contine:

The requirement to be operating for the second application period is removed. As long as you have your MME, you do not have to meet the tax-paying requirement for the second period.

Chair Segerblom:

They would have to have Mr. Pollock's final letter?

Deonne Contine:

Yes.

Assemblyman Hansen:

I owe you an apology. I do not like the program overall—the whole marijuana thing. You are just doing your job, and I was hostile toward you. I would like to apologize for taking it out on you.

Are there any other products that are taxed in Nevada that are violations of federal rules?

Deonne Contine:

I do not know of products or transactions that are federally illegal that we tax. There are a lot of people here who will tell you that they still have to pay federal income tax on their income from their federally illegal products.

Assemblyman Hansen:

It sounds like marijuana is unique.

Chair Segerblom:

Remember this state started gambling. The history of this state is making money off of things that are illegal on the federal level.

Senator Gustavson:

You brought up an interesting question that made me think. We know that the marijuana business is a cash business. You brought up the Internal Revenue Service (IRS). Are these establishments going to be allowed to pay income tax on their income?

Deonne Contine:

They are subject to federal tax reporting. They can tell you more about that because I do not collect federal taxes. They will be subject to sales and use tax, the commerce tax, and the modified business tax.

Assemblyman Fumo:

I was speaking to another assemblyman before this and we were both high on the ability of this to come to fruition here. Businesses that I know that deal in this industry can bring cash to the Taxation Department; they can pay their taxes in cash to the IRS or the city?

Deonne Contine:

Yes.

Chairman Yeager:

Thank you for your hard work on this. On the medical side, our voters put it in the *Constitution of the State of Nevada* and it was at least a decade or more before the Legislature enacted regulatory framework. I am encouraged by how quickly you are moving on this. I have had a lot of inquiries from folks in my district asking when the program is going to be up and running. There was a misperception that it would pass one day and the next day dispensaries would be open and selling. I want to commend you for your work on this, the thoughtfulness in these regulations, and the fact that you have gone to plan B in certain circumstances when you think there might be issues.

Chair Segerblom:

While we are on it, let us give a shout out to the DPBH. Those guys have done an incredible job. We have the model industry in the country.

Deonne Contine:

They have been instrumental and helpful as we have developed these regulations. They have the industry knowledge and experience in regulating this industry. We could not be going this quickly without their help.

Chair Segerblom:

You will need to rely upon them because they are the fundamental people, and they have stuck their neck out for a lot of years.

At this time, we will ask anyone from the audience who has any comments or concerns to come up. This hearing was trying to raise the issues concerning the proposed regulations and make sure that if there is anything that we can do that we do it.

Riana Durrett, Executive Director, Nevada Dispensary Association:

The Nevada Dispensary Association (NDA) represents over 80 percent of dispensaries statewide and over 90 percent in southern Nevada. Many of our members own cultivation and production licenses in addition to dispensary licenses. In total, our members own 100 of the approximately 187 licenses currently operational in Nevada. The NDA supports the Department's proposed temporary regulations as written. It is impossible to discuss how the recreational market will look and operate without first mentioning Nevada's Medical Marijuana Program. Thanks to Senator Segerblom and the DPBH, Nevada has been commended by legislators and regulators from other states as being the national model in

several important regulatory areas, including seed-to-sale tracking, testing standards, and security requirements. Once the voters passed Question 2 in November 2016, the Department of Taxation quickly set about determining how it could maintain Nevada's successful regulatory framework while balancing public safety, the needs of the business community, and the collection of tax revenue that goes to the State Distributive School Account (DSA) in the State General Fund.

The Department reached out to stakeholders to discuss how the program would work alongside the existing Medical Marijuana Program. The Department equipped itself to take on the task of creating and implementing an entirely new industry by hiring staff to assist in this endeavor. The Department drafted regulations that would allow a smooth transition from the already regulated medical marijuana market to a combined market.

The Department of Taxation has been open to input from the industry and the public. It has been open about its efforts at the Nevada Tax Commission on January 23, 2017; the Interim Finance Committee on January 26, 2017; and a public workshop on March 29, 2017. The Department has been responsive to the needs of the industry; however, it has been unwilling to compromise on any aspects of the proposed regulations that would undermine its ability to effectively collect taxes that go to our DSA or undermine its ability to effectively enforce the rules and regulations governing recreational marijuana. The Department of Taxation has done an admirable job of balancing and resolving issues around public safety, collection of taxes, and the need to make this program as streamlined and efficient as possible. If these temporary regulations are not adopted on May 8, 2017, the result will be a loss in tax revenue that would otherwise go to our schools. In order to accomplish the goal of collection of taxes on marijuana sales on July 1, we strongly urge adoption of the temporary regulations as written.

Finally, I would like to acknowledge the medical marijuana establishment owners here today who have spent the past several years dedicated to developing the market as we know it. I would like to ask them to stand so you know how many flew up for this. I would also like to thank Andrew Jolley, the President of the NDA, for joining me and have him say a couple of comments.

Chair Segerblom:

We are the Legislature, so you do not direct us. Do you oppose having a rolling period after May 31, or do you think they should have this five-day window?

Riana Durrett:

The Nevada Dispensary Association is not opposed to a rolling period, but we are supportive of having these adopted by May 8. We would be supportive of however they are written as long as they are adopted by May 8.

Chair Segerblom:

Do any of your members have grows or other institutions that might not be available by September 1, but might come online October 1? If so, what would they do with their product? If they are growing product and it came to flower on November 1, what would they do with that?

Riana Durrett:

We do have some members whose cultivation and production licenses may not qualify for early start. We are more concerned about the operators who have invested and who are currently facing significant financial losses being able to start recouping their investments by engaging in sales by July 1. As far as a rolling period, we would support whatever the Department has capacity to do.

Andrew Jolley, President, Nevada Dispensary Association:

I want to echo what Riana has shared with you. We have a lot to be proud of in Nevada in the way that we have rolled out the Medical Marijuana Program. We are looked at as a model for many other states. There are over 200 million Americans who live in states with medical marijuana now, and they are all looking at us. I am proud to say that we have done a very good job as an industry. A lot of that has to do with our regulatory body. The Division of Public and Behavioral Health has done a phenomenal job and has allowed us to get to this point. We are not the only state that has a gap between voting in recreational marijuana and starting sales through a regulated program. Oregon faced the same issue. They implemented an early start program—it has been very successful. They collected \$40 million in tax revenue that would have otherwise gone to the black market. I want to applaud what the Department of Taxation is doing to allow this program to get off the ground.

Larry D. Smith, Chief Executive Officer, GFIVE Cultivation, Las Vegas, Nevada:

I am one of the very few African-American cultivators in the state. I want to commend the Taxation Department and the Division of Public and Behavioral Health for doing such a good job. I do have an issue. My building is not yet up. I have invested \$2 million of my own money—I am a 92 percent-owner of my company. I am not up for other reasons, meaning the Department of Transportation (NDOT) and Nevada Power Company. I feel that I should not be penalized for these groups not getting things done on my behalf. I have waited for one permit for three and a half to five months; I have waited for the fire department going on two months. This is out of my control. My building is complete, and I have everything in my building ready to go. Even if they were to turn my power on in two weeks, I still have other things to implement.

When I got into this, I wanted to make sure that I represented the state of Nevada very well. We are not going to just put out any product. This is a medical issue for us, especially where I come from with family members having cancer, HIV, and lupus. There is more to this than just making money for us. A lot of these guys want to make the money. At the same time, I feel like they are getting a head start and I am being penalized for something that has

nothing to do with me. In any other business, when you come online, you come online. Why is it that you guys have waited a decade to start this program? All of a sudden, you want to give me a cutoff date of May 31. That is not fair to me; it is not fair to people who are putting in his or her time and effort just like everyone else who has started. The deadline for May 31 is cool as far as having something in place, but if I come up on June 1 and I am ready to do, why do I get penalized for sitting for another six months in order to be in the recreational side as well?

Chair Segerblom:

It sounds like you will get a medical permit from Mr. Pollock when all of these things happen. Do you know where you would sell your product in the medical system if all of the dispensaries were recreational?

Larry Smith:

That is another issue. None of these guys have reached out to me—I have not reached out to them either. I do not have anyone to sell to as of yet on the medical side. I do not have anything up, but when I do have it up, that is what I would be doing—selling it on the medical side. I do not know how many people are still going to be in that program. They are saying that we have to buy in. I do not have anyone to sell to yet. Even if I was up, I do not have any sales yet. Why are you penalizing me for not having any sales?

Chair Segerblom:

My concern is that all of these dispensaries are going to go recreational so there will not be any medical dispensaries. You will just be limited to the medical program in which there will not be any place to sell to. If there is a way we could accommodate what you are talking about, that would be helpful to you and to the system.

Larry Smith:

I have talked to some of the people around me who have their cultivations up and running. Some of them are in the same position that I am in—they are months or weeks away from being active. They are not going to make the deadline because the state has to come back into my facility, give me my license, and I still have to go through the county process as well and that could take a couple of weeks. I am sitting in a position where, for six months until January, I am stuck.

Assemblyman Hansen:

Did you say that once the recreational places open that there would not be a market for medical marijuana? Are we admitting then that the medical marijuana thing is—?

Larry Smith:

GFIVE Cultivation loves the medical portion of it. What I am saying is that we still need to have the option for the recreational as well.

Assemblyman Hansen:

I understand. The Chair indicated that you are going to have a hard time staying in business because everybody is going to go recreational.

Larry Smith:

That is going to be a problem. If it is any indication of other places, there are still going to be medical patients. The recreational market is what everyone is looking forward to.

Chair Segerblom:

If I could explain, all of the product is going to be one inventory. When you go into the dispensary, you will have your medical card or you will have your driver's license. You will be buying the same product. The problem is that Mr. Smith will not be able to sell his product into the dispensary because he will only have a medical license. All of the other growers will have recreational licenses, but he will only have a medical license. He will not be able to participate because it will be a uniform inventory and you cannot mix the medical with the recreational unless you have a recreational license.

Assemblyman Thompson:

Chair, could the Division of Public and Behavioral Health (DPBH) answer some of the plethora of questions that Mr. Smith has? Whom does a vendor go to when they have issues like this? How do they get resolved?

Chair Segerblom:

I think we just lost our DPBH expert.

Will Adler, Executive Director, Sierra Cannabis Coalition:

Joe Pollock from DPBH had to leave for another hearing.

Chair Segerblom:

We do not have the answer to your question, but we can get it later. This is just an informative hearing. Mr. Pollock can come to you tomorrow if you would like. He is trying to surface issues that may have fallen through the cracks and we need to address. Thank you, Mr. Smith, for coming here. I see what you are talking about. It is potentially a major issue for people who have invested millions of dollars.

Larry Smith:

For the record, I am not saying that I do not want everyone to get his or her recreational. I just do not think there should be a deadline of May 31.

Amanda N. Connor, representing Nevada Cannabis Coalition:

The Nevada Cannabis Coalition consists of seven members. Several of the owners are here tonight. They are the other group that works in conjunction with the NDA on helping move the industry forward. On behalf of the Nevada Cannabis Coalition, I would like to echo the comments that Ms. Durrett made on behalf of the NDA. We are appreciative of the

opportunity to speak tonight and we would like to thank the Department of Taxation. They have worked diligently over the past several months to implement an early start program of the voter-passed initiative. They have been open to public comment during the public hearings and written feedback. They have taken those and diligently considered them while addressing the industry's and the public's concerns, making sure to address their ability to safely regulate this industry. The early start program is important for the state and for this industry in ensuring the state receives the revenue needed to continue, and the industry can implement the program that the voters wanted.

We would also like to thank DPBH, who have done a great job of implementing the medical marijuana program. The Nevada Cannabis Coalition is extremely supportive of having both a strong and robust Medical Marijuana Program, as well as a recreational program. As Riana Durrett indicated, Nevada is the best regulated marijuana industry in the country. We are confident that the Department of Taxation can carry on this record.

Will Adler:

I would like to ditto what Ms. Connor stated. In addition to comments made by Assemblyman Hansen and others, the Medical Marijuana Program does have to remain intact. It does supply a different niche of people who have serious medical needs. That is mostly what you have seen this year through bills like Assembly Bill 422 (1st Reprint) that will make the medical program more robust, keep it intact, and make it more viable even though we will have recreational sales. There will be a larger market for recreational than medical, but we do want to maintain that medical marijuana patients are important. Serving those patients is also important.

My association and I appreciate everything that the Department of Taxation has done to meet this July 1 deadline, to get taxes into our next biennium, and to go forward working with DPBH and everyone else who has been in the medical market before by using our gold standard of medical marijuana regulations. Every other state has tried to meet Nevada since we have passed ours. We have mandatory lab testing, seed-to-sale tracking, and everything else mentioned before. It was not easy to take any medical market and make it recreational. Compared with states like California, Nevada had a good base to build on. That is why we could do it in this timeline. California is looking at maybe a two-year timeline between their medical and recreational because of how much they had to bring it up to a standard like ours. I do want to give a shout out to DPBH and Taxation for all the work they have done. It is on the Assembly and the Senate today to make sure we do have a robust medical program. Through the bills that we have going through the Legislature, hopefully we will be able to do that by streamlining it, making it more efficient, and making it more accessible for patients. Without that, it is a smaller market and less attractive to supply. We still want to do that. That is why a lot of these bills have come forward.

Wes Henderson, Executive Director, Nevada League of Cities and Municipalities:

I appreciate all of the work that the Department of Taxation, the Governor's Task Force, and the Legislature are doing. I appreciate your getting the comments on the record about the rural cities. We have proposed legislation that will allow an incorporated city in a county under 100,000 to apply for a certificate for a medical marijuana dispensary. We hope the timing works out so that DPBH can process those and the Department of Taxation can consider them for the early start program. I would also like to thank you for getting on the record that if an incorporated city has imposed a moratorium on recreational marijuana, that moratorium will stay in effect until the city lifts it.

Chair Segerblom:

I have been approached by at least two cities—West Wendover and Fernley—that are interested in having a medical marijuana program. Is that correct?

Wes Henderson:

That is correct. A person who holds a medical card in West Wendover has to drive over 350 miles to the nearest dispensary.

Chair Segerblom:

Or to Salt Lake City? That was a joke.

Bronwen Nikora, Director of Administration, Solace Holdings, LLLP:

We are a cultivation and extraction currently under construction in North Las Vegas. Everybody in the industry is making substantial investments and strides to become operational. I hope that the Department will consider everyone's investment fairly and our ability to contribute to both medical and recreational markets. To date, we have invested \$5 million, and we will continue investing until we become operational next month, with an additional \$15 million slated into the city of North Las Vegas. I hope it is understood that everybody's investment is valuable to this state and considered long-term.

Matthew McClure, General Manager, Wellness Connection of Nevada, LLC:

We are a three-license cultivation, production, and dispensary outfit. We are collocated in one location on Spring Mountain Road and Valley View Boulevard in Las Vegas. I would like to mirror some of the comments made earlier by Mr. Smith as well as Ms. Nikora. There is a misconception I have heard at these hearings that those operators who are up, open, and fully licensed have been enduring a financial hardship that is not shared or also owned by those who are working toward opening. Our license group has spent roughly \$3.5 million at this point in time toward getting open. We are going to be a group that, with our dispensary license, will be within a matter of days of being able to move through the process and meet that May 31 deadline, with our other two licenses to follow. In consideration of that, and wanting to be understanding and respectful of all of the work

that the Department of Taxation has put forward so far, a suggestion for the program would be to drop this May 31 deadline and move to a rolling program. It sounds like it could ease and allow for a couple of things. First and foremost, for license groups like us today, it would give us the ability to participate as quickly as we can in this market. It seems to be an issue with why there is a deadline, why there is a window of time to launch this program.

Maybe it is too commonsense because I do not have an understanding of the program itself, but by having no deadline it seems to be a better solution to give the Department more time to work through these things. At this time, they are working toward a program in terms of how they have designed it. There are going to be a number of things that they may incur as they put this program into practice. This deadline may not be sufficient to execute given the parameters they have designed around. For the cities that are currently in moratorium and will not be online after the fact, it would allow those license holders to mirror the Department of Taxation's comments about the hardships that they have endured. A faster track program and an early opportunity to participate rather than the unknown secondary period to apply that is currently stated.

Ian Miller, Chief Executive Officer, Solace Holdings, LLLP:

I want to thank everyone from Taxation and DPBH for all of the hard work they have put in, and all of the speakers who have come up and made their opinions known. Specifically, I want to thank Chair Segerblom and Assemblyman Pickard for defending free market competition. I see what you are driving at, and I think you understand what many of us, including the two folks beside me as well as Mr. Smith, are driving at as well. I do not want to push any harder on that, but thank you. I do have a question for clarification, if it pleases you. Is there going to be any type of one-time or rolling conversion of inventory from medical to adult use? The reason I am asking is because it takes approximately three months for the plants to go from clone to maturity. If some of these operators have to tag their inventory at the clone stage, they may not be able to deliver any product into the adult use market for potentially three to four months.

Assemblyman Pickard:

I appreciate the recognition for being business friendly. I do not, however, want that net to be cast too far.

Chair Segerblom:

I can see that on the next campaign mailer—"Pro marijuana business."

Samuel P. McMullen, representing Independent Alcohol Distributors of Nevada:

I represent a group of people who thought that under Question 2, now enacted as NRS Chapter 453D, that they would have the exclusive ability to be the distributors for marijuana under the voter-approved initiative. They are participating in the process. What I am here for tonight is to let you know, in summary, what we are going to be doing at the Tax Commission meeting on May 8. I would like to give you a bit of background. If you are familiar with the initiative, it said that the "People of the State of Nevada proclaim that

marijuana should be regulated in a manner similar to alcohol . . ." and it goes on with a number of things. For those of you who may not be aware of the three-tiered system for alcohol, it has a number of pieces to it. The most important for this discussion is that there would be independents in one of the three legs—the distribution leg—so that tax accounting, diversion, security, and health were done correctly by someone who was an independent company from the manufacturer/cultivator and the retail.

When this passed, section 10, subsection 3 stated that the licenses for the first 18 months would only be given to people who had been given a license under the alcohol regulation system of NRS Chapter 369. The bottom line is that what happened to the industry that got me hired was that they woke up on March 16, 2017, with the draft regulation that declared that there would be an insufficient number—which is allowed under the initiative to be done in public, but not necessarily as a Star Chamber behind-the-scenes process of the Department—of licensees for purposes of marijuana distribution under recreational marijuana. That has been changed.

In this draft regulation in section 14, that determination of insufficiency has been changed. There will be a different process. We hope to be participating in the determination of that process with the Tax Commission on May 8. If you understand the basics of the alcohol industry, there are probably 300 possible clients and marijuana establishments that would be allowed under the accumulation of both systems. These liquor distributors handle, on average, 200-300 businesses at a time for lots of poundage, lots of weight, and lots of trips. Consequently, they woke up on March 16 to find out that their businesses were insufficient to handle this load when they, in fact, handle the load of this and more.

We believe that they will be sufficient. Under section 10, subsection 3, they will be the exclusive providers, and they are fighting for that right and legal status. It is not lost on elected officials in this room, but that is a position that the voters approved, authorized, and enabled. It is clear under the initiative called "Regulate Marijuana like Alcohol" that it was a clear purpose, feeling, and intent as the initiative was explained to the people who voted on it. We are going to be presenting that. We believe that that independence means that there cannot be anybody but liquor distributors who get those licenses. They come with bonded activities. They have a huge license to lose if they do anything wrong under Nevada law. They know the tax accounting and recording, they know anti-diversion, they know all of the things that go to the health and safety of a product—they do it every day. For a lot of reasons that is a clear public goal and service that is provided by these alcohol distributors. That was very clearly intended by the initiative, which will be our main point if this goes beyond the Tax Commission.

There are a lot of other things I could talk about, and we will discuss them with the Commission. We are going to present a draft regulation. Out of courtesy, I wanted to make sure that you knew what was happening and that you were not blindsided by anything we did after this evening. This is a bunch of Nevada businesses and citizens who have a long heritage of doing things well, doing things right, and thinking they have a rightful place under the initiative and they are willing to fight for it. Consequently, they are going to continue to do that. I wanted to give you the courtesy of giving you a basis of understanding on that.

Assemblyman Hansen:

I am confused. I got the impression that the alcohol distributors would be insufficient. If you get licensed to do marijuana then you could potentially lose a federal license that involves the distribution of liquor. Is that accurate?

Samuel McMullen:

That is a simple statement of a lot of concerns that wrap together like this. Section 10, subsection 3 allows the marijuana distributor license to be authorized and given to a person who holds a liquor license in the state of Nevada. Our argument would be that the liquor license is granted in two ways: one is to individuals and one is to the correlated company with that individual. That is true at the federal level, although this does not relate to federal licensure. While there is a lot of concern about this, there is an ability. It depends on whether people want to follow the law and make this work or whether they want to squeeze us out. That has been a concern because of all of the forces that are arrayed against these people. The bottom line is that if you want to do it, there is a way to do it. We can present and explain that. The individual can get licensed and have a separate company.

I will say one other thing that is lost on some people; it is certainly not lost on my clients. We have other states, like Colorado, that are trying to make sure that their system is protected from any federal interference. It is dangerous. It is not just going to be liquor distributors who are a piece of this pie who are going to be shot at if it happens—it is going to be the whole system. I believe that this is going to be \$100 million or more every year of revenue. It needs to be protected. That ought to be a goal. Right now, it seems that, to these people, this is to knock them out and push it over to medical marijuana distributors or other people like that. There are ways to do this if you want it to be done.

Assemblyman Hansen:

You are splitting people into two groups—individuals and wholesale liquor distributors. You are suggesting that these individuals may be able to get the marijuana distribution licenses. As wholesalers, they probably will not be able to because they could potentially lose their federal license.

Samuel McMullen:

I think I have confused you. At the Nevada level, there is a liquor license granted under NRS Chapter 369, both to an individual and a related company. There is a company at that level and there is an individual. The initiative says it will be granted to persons holding those licenses. The Department has pointed out that a person can be an individual or a corporation. We are pointing out the exact opposite—it can be a natural person. If that natural person applies for a marijuana distributor license, they can implement that license just as they do in alcohol—through a separate company. It will still pass the legal test of the initiative because it is the person who is licensed under Nevada law. That is there; it is not changeable.

Assemblyman Hansen:

You are essentially saying that we have enough distributors to do it without going to the clause that says that in the absence of the quantity we need to distribute it effectively, it would allow the Department of Taxation to open up the windows, so to speak. Your testimony is that they do not need to open up the window; your people will meet the full demand.

Samuel McMullen:

We will demonstrate that at the Commission. If you look at the initiative, it says how many retail licenses it may have. It will not start off in a huge ramp. It will grow quickly. If you add all of the cultivation and new retail licenses together and they were all in place right now, it would be fewer than 300 licenses.

Chair Segerblom:

I do want our legal counsel to explain the Legislature's role in these regulations.

Nicolas Anthony, Committee Counsel, Legislative Counsel Bureau:

For the purposes of tonight's informational hearing, in terms of NRS Chapter 233B, the temporary regulations do not become effective until at least 35 days after they are adopted. At that time, they are filed with the Office of the Secretary of State and become effective. Within that 35-day window, pursuant to NRS Chapter 233B, any legislator can request the Legislative Commission to examine those temporary regulations to determine their conformity with existing statutory authority. If the Legislature determines that the regulations exceed statutory authority, they then notify the Department of Taxation within 60 days. The Department of Taxation comes back with the clarifying regulations and again submits them to the Legislative Commission. If the process goes one more time, it is an additional 30 days.

Assemblyman Hansen:

If the regulations are in violation of NRS, what happens when they are in violation of federal statute?

Nick Anthony:

My remarks apply to state law only. As such, the regulations are evaluated for conformity with the state law under Question 2.

Assemblyman Hansen:

When state law conflicts with federal law, what are we supposed to follow?

Chair Segerblom:

That is beyond his pay grade.

Assemblyman Hansen:

That is because you know what the answer is.

Chair Segerblom:

This is Nevada; we do not worry about the federal law. If they want to come in here and take our guns, they are going to pay the price. Thank you for allowing me to Chair. I have always wanted to sit up here and Chair the big Committee. I can die in peace.

This meeting is adjourned [at 7:43 p.m.].

RESPECTFULLY SUBMITTED:

Erin McHam
Committee Secretary

APPROVED BY:

Assemblyman Steve Yeager, Chairman

DATE: _____

Senator Tick Segerblom, Chair

DATE: _____

EXHIBITS

[Exhibit A](#) is the Agenda.

[Exhibit B](#) is the Attendance Roster.

[Exhibit C](#) is a document titled "Proposed Regulation of the Nevada Tax Commission, LCB File No. T001-17" by the Department of Taxation, presented by Deonne E. Contine, Executive Director, Department of Taxation.