



VERMONT  
CANNABIS TRADES  
ASSOCIATION, INC.

To: Senate Finance Committee  
From: Shayne Lynn, Executive Director, Champlain Valley Dispensary, Inc.  
Date: February 2, 2016

Thank you for having me here to testify. My name is Shayne Lynn. I am the Executive Director of Champlain Valley Dispensary, Inc., which operates two of the four non-profit, medical marijuana licenses in Vermont. We serve the Burlington (CVD) and Brattleboro (SVW) areas. We provide cannabis to 60% of the registered medical marijuana dispensary patients in Vermont.

I'd like to divide my testimony into three parts; start-up, daily operations and the future.

### **Start-Up**

CVD was started with private funding from Vermonters. Currently we cannot borrow capital to expand with the growing demand, and, as a non-profit, we do not have the ability to offer equity to private funders. Consequently, CVD's resources are diverted from its core mission, as it needs to constantly focus on raising capital in small increments every month. This poses significant challenges to maintaining the efficiencies and quality we need to provide to our patients. Developing access to capital is critical and should be supported by UCC filings on machinery, commercial equipment, and inventory. We do not want to see the industry fail because of restrictive regulations to capital.

Currently we work with two state credit unions willing to be business partners with us in this industry. We have checking accounts, allowing us to pay employees, sub-contractors, and the IRS - either by check or electronically. Patients can use either cash or a debit card for their sales transactions. Our credit union recently granted CVD credit cards for business purchases. Prior to this, for two years, all business purchases were made on my personal credit card.

Though we operate under nonprofit by-laws, we are not recognized by the IRS as a 501(c)(3). In addition, tax law 280(e) does not allow for write-offs in places the IRS considers "drug trafficking", leaving us with an additional tax burden of 30% to 50% each year. We suggest that the state offer 280(e) relief by allowing for standard business deductions on our state tax forms.

### **Daily Operations**

We have now completed our second financial audit, encompassing fiscal year 2015. Though not required annually, we recognized this gives us good management control and transparency, and offers security to both our lenders and the DPS. This also reduces the possibility of embezzlement. This year we shifted from cash to accrual based accounting. We will be GAAP compliant after this audit, a significant and

important achievement for a business of our size in an industry so new. Lastly, the audit confirms both our general and product liability insurance (still no reasonable D&O insurance offered).

We currently pay an annual license fee of \$25,000 per dispensary. This fee is due in full at the time of renewal for each dispensary license we hold, and this cost is ultimately borne by the patients. In addition to these fees, all employees, board members, and patients submit an annual application with a \$50 fee to the DPS for a state issued photo identification card.

To date, there has been no surplus revenue and all funds have been directed immediately into operating expenses. Our ability to expand to meet the growing demand of patients has been wholly dependent on debt financing with the support of private individuals.

We plan to upgrade our accounting software (currently Quickbooks) to meet our anticipated growth in 2016. We are in the process of selecting and integrating an Enterprise Resource Platform (“ERP”) software system to manage all the data, processing and information required to run the business efficiently going forward. We are a manufacturing company, and good data inputs and outputs are necessary for success, as well as ensuring compliance with our tax and regulatory obligations.

CVD hired 25 new employees in 2015, including a Human Resource Manager, Lab Director and a Controller with deep manufacturing and corporate finance backgrounds. We now have a staff of 40 employees and expect another 5 to 7 employees to be hired by this coming summer. We provide starting wages above minimum wage and have a goal to offer employee health care by 2017.

## **Future**

Currently, 23 states and the District of Columbia have approved medical cannabis for patients. The average penetration of medical marijuana is 0.9% of a state’s population. In Vermont, the medical marijuana program only serves approximately 0.3% of the population. We would like to see Vermont’s Medical Marijuana Program match the national average penetration rate of 0.9%. However to achieve the national average of 0.9% we would need to see the qualifying conditions list expanded. This would give Vermonters more access and alternative medications for symptom relief. We believe cannabis provides an important and effective alternative to the current opioid-based options for pain management, which have lead to an addiction crises in Vermont and throughout the U.S.

We advocate for keeping medical cannabis tax-free in Vermont, as are all pharmaceutical purchases. Our patients pay out of pocket; there is no insurance coverage. Offering a wide range of products, including dried flowers, edibles, and transdermal patches, increases patients’ spending power and the efficacy of our treatments.

There are three tax options for adult usage; (1) “ad valorem”, as a percentage of retail price, (2) weight based, which may encourage high potency products, and (3) THC dependent, but is complex and people may “game the system”.

We support taxing cannabis in the supply chain at the time of sale to avoid confusion. All sales up to the final consumer should be tax exempt using a resale certificate. This is a complicated industry - we suggest a tax system which is simple, all ready in place and easy to forecast and audit for the state. This tax policy will have both local and regional influences on how the industry will develop and the number of regulators which will be employed to monitor this growth within the state.

One day Vermont may have neighboring states which tax and regulate cannabis sales to adults. Vermont’s future adult cannabis market should remain flexible - from the total square footage of canopy to tax rates. This is a start up industry which will need appropriately timed changes and updates to policies and reporting mechanisms for it to succeed.

Thank you for this time and opportunity to speak with you today.