

Recreational Cannabis Statewide Informational Webinar



October 13, 2021

This webinar is for informational purposes only. It is not intended to be legal or business advice.



Agenda

- Overview of the initial rules
- Basic application requirements
- Expectations for CRC background investigations
- What businesses can do to prepare for applications
- Management Service Agreement and Financial Source Agreement 101
- Expectations for neighborhoods with cannabis businesses
- What's next
- Q&A



Overview of Initial Recreational Cannabis Rules

Initial Rules Focal Points



Outline the application process and fee structure for **transparency**



Emphasize social and economic **equity** and **safety**



Uphold **municipal authority**



Classes of Cannabis Businesses

- Class 1 Cannabis Cultivator
- Class 2 Cannabis Manufacturer
- Class 3 Cannabis Wholesaler
- Class 4 Cannabis Distributor
- Class 5 Cannabis Retailer
- Class 6 Cannabis Delivery
- Testing Laboratory

Equity in the Rules

- **Priority review** for applications from target groups
- **Focus on market access** for diverse entrepreneurs
- **Low application fees** and competitive licensing fees
- **Protections for license-holders** from predatory practices
- **Community benefits**





Equity in the Rules

** **Impact Zone** – defined in N.J.S.A. 24:6I-33
~ a municipality with a large population, high unemployment rate, high number of crime or arrests for marijuana, or a combination of these*

◆ **Diversely-owned**

Certified as minority-, woman-, and/or disabled veteran-owned business

◆ **Social Equity**

Applicants who:

- Live/d in economically disadvantage areas **AND** 80% of median household income
- Have (a) cannabis-related criminal offense(s)

◆ ***Impact Zones**

Business:

- Located in an Impact Zone, or
- Owner(s) live in an Impact Zone, or
- Employees live in Impact Zone

CONDITIONAL

Prioritized over annual in application process

Has up to 5 ½ months to apply to convert to Annual license, via abbreviated application process

Don't need site control or municipal approval

2 Types of Cannabis Licenses

ANNUAL

Reviewed after conditionals in application process

Must undergo full application process as outlined in regulations

Requires site control & municipal approval



Municipal Guidance



Municipal authority covers:

- zoning regulations and approvals with reasonable fees
- number and kind of cannabis business licenses
- business operations like opening hours
- the ability to enact up to 2% transfer tax
- weighing in on CRC's selection process with preference
- passing and updating their ordinances





Decision-making Centers of Local Government



The Local Governing Body – Determines *what to include in the town budget, taxes to be levied on residents & businesses, and what should be legal or illegal within the town. It includes the mayor and other elected, appointed, and hired administrators.*



The Planning Board - Controls the physical structure of the community, environmental quality, and future development. Its makeup may include non-elected resident volunteers, municipal employees, and elected officials.



The Zoning Board - An independent, partly-judicial body that issues zoning variances, rules on zoning appeals, and interprets municipal master plans. Its makeup may include non-elected resident volunteers, municipal employees, and elected officials.



What do applicants need from the business location municipality?

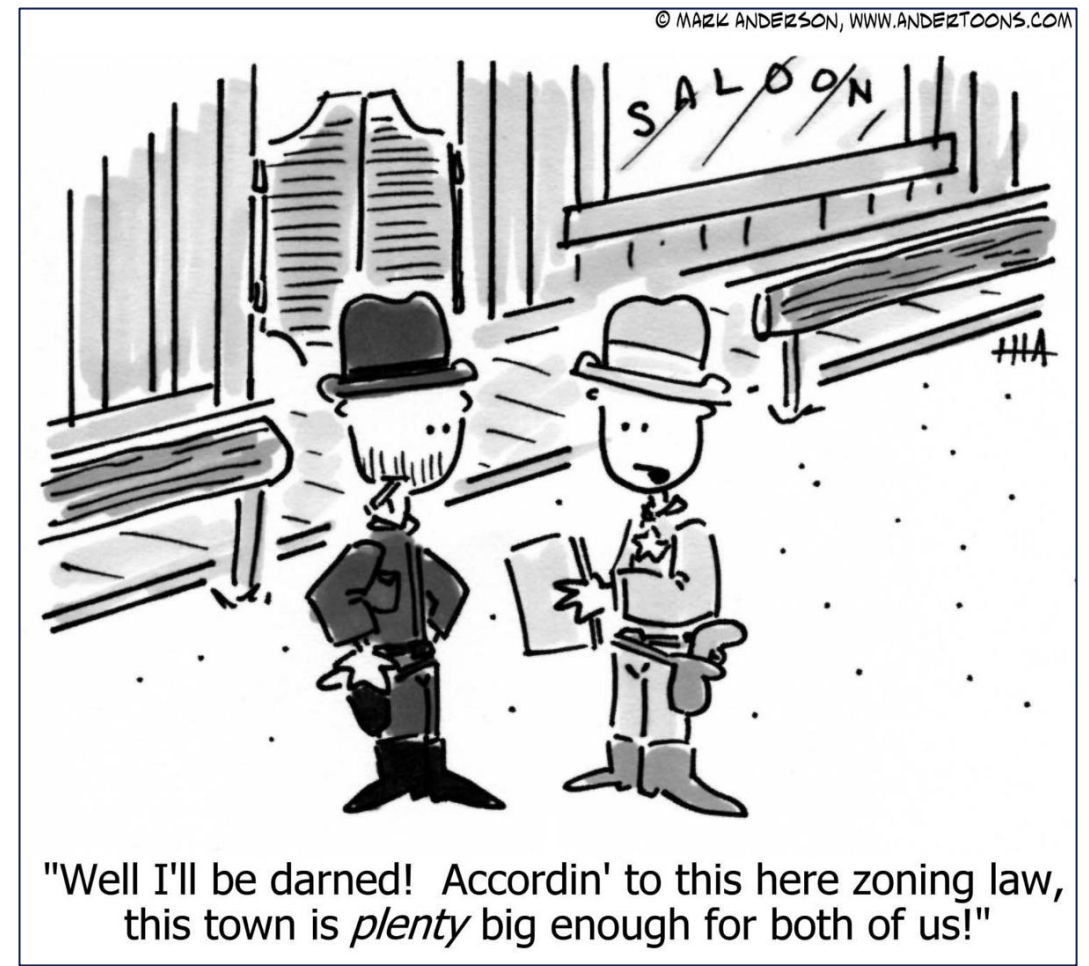
Applicants must have **both**:

1. A letter or affidavit from zoning officials indicating that the applicant's proposed location is compliant with local zoning requirements,

AND

2. A municipal resolution or letter from municipal executive indicating that the intended business location is appropriate for cannabis activities

***Applicants for annual licenses must have both.**





Basic Application Requirements



Licenses covered in initial rules

- ◆ Covers licensing requirements for all cannabis businesses
-
- ◆ Covers complete operational requirements for cultivators, manufacturers & retailers
-
- ◆ Wholesalers, distributors, and delivery services are coming soon.



Preparing to Start a Cannabis Business in New Jersey



Preparing to start a Cannabis Business in New Jersey

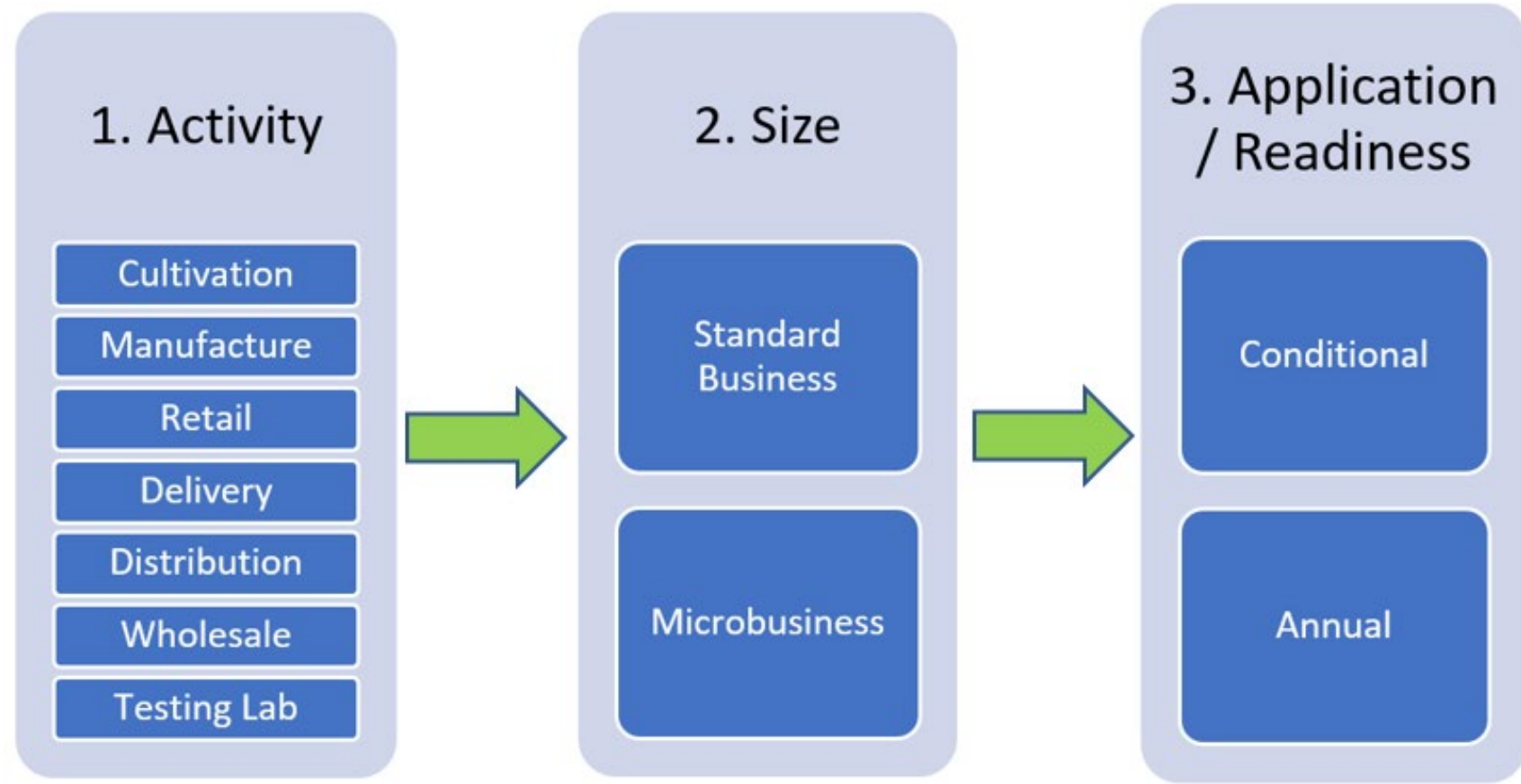
1. Know the law and regulations:

- Develop a regulatory compliance plan for your business
- [Cannabis Regulatory Commission Homepage \(nj.gov\)](https://nj.gov/cannabis/) nj.gov/cannabis/
 - Initial Recreational Cannabis Rules & Summary
 - [New Jersey Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization Act \(CREAMMA\)](#)



Preparing to start a Cannabis Business in New Jersey

Identify what kind of business and application you'll want to use





Preparing to start a Cannabis Business in New Jersey

2. Develop a business plan:

- Market research
 - Customers & buying habits
 - Cannabis business operations
 - Budget & pricing
 - Financing plan
- Formal business plan is required as part of conditional license application.



Preparing to start a Cannabis Business in New Jersey

3. Decide on a legal business structure:

- Partnership
- Limited Liability Company (LLC)
- Corporation
- S Corporation

4. Get Federal and State Tax ID Numbers:

- Federal ID or Employer Identification Number (EIN) [2021 IRS Tax ID / EIN Online Application - Form SS-4 \(irs-gov-ein-number.com\)](#)
 - Required for federal taxes, hire employees, open bank account, apply for licenses & permits
- New Jersey State Tax ID <https://www.state.nj.us/treasury/taxation/br1.shtml>
 - Required to pay NJ taxes



Preparing to start a Cannabis Business in New Jersey

5. Choose & register your business and business name:

- <https://www.state.nj.us/treasury/revenue/gettingregistered.shtml>
- Reserve your domain name for a website
- Note: *A cannabis business can only operate under the name on the license – the legal entity name as it appears on the New Jersey business registration*
- Note: *A cannabis business cannot use, display, advertise, or operate under any alternate name.*

6. Open a business bank account:

- Note: *There are banks in NJ that accept cannabis business clients*
- A business bank account helps you stay legally compliant and protected.
- Documents: *personal ID, Employer Identification Number (EIN), Social Security Card, business formation papers, ownership agreements, business registration*



Preparing to start a Cannabis Business in New Jersey

7. Get business insurance:

- General liability
 - Required for conditional and annual license applications
- Product liability
- Professional liability
- Commercial property
- Business owners policy
- Vehicle insurance
 - Required for transportation and delivery of cannabis and cannabis items
- Workers' compensation



Preparing to start a Cannabis Business in New Jersey

8. Research potential locations:

- Each city, town, township, village, and borough is responsible for establishing its own process for approving cannabis businesses in the jurisdiction
- Site control, local approval, and evidence of zoning approval are required for annual license applications
- Conditional license applicants must identify a potential site but may change it later.



Preparing to start a Cannabis Business in New Jersey

9a. Apply for certification as a minority-owned, woman-owned, and/or disabled veteran-owned business (if applicable):

- Certification procedures and application forms are on the New Jersey Department of Treasury Division of Revenue and Enterprise Services website:<https://www.njportal.com/DOR/SBERegistry/>



Preparing to start a Cannabis Business in New Jersey

9b. Prepare documentation proof to qualify for conditional application, social equity business, Impact Zone business, and/or microbusiness (if applicable):

- *Residency*
 - ***Social Equity Business: 5 of 10 years in “economically disadvantaged area”***
 - ***Impact Zone: current residents and 3 or more consecutive years in impact zone***
 - ***Microbusiness: NJ residents for 2 years at time of application; 51% of ownership must be residents of municipality the business wants to locate in, or neighboring municipality***
- *Past cannabis convictions*
 - *Proof of 2 or more disorderly persons offenses, or one or more indictable offenses.*
- *Tax returns: Conditional license applicants must have made less than \$200k (single) or \$400k (joint filers) in preceding year.*



Preparing to start a Cannabis Business in New Jersey

10. Review application regulations & prepare documents required by license applications:

- Conditional License applicants
- Annual License applicants
- Probity review for:
 - Owners
 - Principals
 - Management services contractors
 - Financial sources
 - And others



Expectations for CRC Investigations

CRC Background Investigation Process

✓ Review for statutory compliance

- Social equity designations
- Conditional applicants
- Microbusiness applicants
- Ownership limitations

✓ Criminal history background check

- Low-level cannabis offenses not disqualifying (DQ)
- DQ offenses must be substantially related to qualifications
- Can prove rehab for DQ offenses.

✓ Probity

- Owners, interested parties, some contractors
- Professional licenses
- Finances
- Business formation documents
- Board meeting minutes
- History of fines and sanctions



Management Service Agreements and Financial Source Agreements

Management Service Agreements (MSAs)

WHAT IS A MANAGEMENT SERVICE AGREEMENT?

- A management service contractor (MSC) agrees to provide professional staffing and/or management services to a cannabis business (applicant or license holder)
- In exchange for fees, or other compensation **BUT NOT OWNERSHIP INTEREST**
- MSCs can have no more than 5 agreements with cannabis businesses
- Cannabis business owners and principals **CANNOT** be MSCs.



Management Service Agreements (MSAs)

- MSC services can include:
 - Management, supervision, or hiring employees
 - Help with operations or consulting
 - Technical assistance
 - Accounting or recordkeeping
 - Leasing of equipment or real or intellectual property
 - Providing supplies for the business



Financial Source Agreements (FSAs)

WHAT IS A FINANCIAL SOURCE AGREEMENT?

- A financial source (FS) agrees to lend capital to a cannabis business (applicant or license holder) as part of a secured or unsecured financing agreement
- A financial source can have no more than 7 agreements with cannabis businesses
- Some examples of financial sources:
 - Creditors with a secured interest in the cannabis business or its premises
 - Creditors holding an outstanding bond, loan, mortgage, trust deed, or note from the cannabis business





MSAs & FSAs CANNOT

- X Impose unreasonable fees, interest rates, or returns
- X Receive an ownership interest in the cannabis business
- X Have an unfair advantage over the cannabis business
- X Have a percentage of business profits greater than the net profits received by the cannabis business
- X Prohibit the cannabis business from selling to or buying from any company
- X Require the cannabis business to enter into non-compete agreements



MSAs & FSAs CANNOT

- X Require the cannabis business to enter into non-compete agreements
- X Have the power to overrule fundamental business operations decisions, such as strategic planning
- X (MSAs) Last more than 4 years without an opportunity to re-negotiate
- X (FSAs) Impose penalties for pre-payment or paying off the debt



Before you sign an MSA:

- Check the document for any prohibited terms or conditions.

- Submit all the required MSC documents required by the rules, such as
 - Personnel information
 - Consent to a background check
 - Evidence of rehabilitation, if needed
 - A completed Entity Disclosure Form

- Clearly communicate with the proposed MSC any plans or expectations to audit the MSC's records that concern the agreement.



Before you sign an FSA:

- Check the document for any prohibited terms or conditions.

- Submit all the required FS documents required by the rules, such as
 - A completed Entity Disclosure Form/Personal History Disclosure Form
 - Information related to any changes to the ownership interest or control of the FS



Expectations for communities



What should you expect to see with a cannabis business neighbor?

Indoor/Outdoor cultivation

- Warehouse-like structures
- Municipalities must expressly allow outdoor cultivation
- Outdoor cultivation areas will be required to have additional security and/or physical barriers

Retail stores

- Security and age-verification upon entry
- No signage other than name



What should you expect to see with a cannabis business neighbor?

Odors

- Mostly an issue for cultivation operations
- Businesses required to use odor mitigation strategies
- Utilizing Heating, Ventilation, Air Conditioning and refrigeration (HVACR) systems uniquely tailored to cannabis industry



What comes next?

Next!

Notice of
Application
Acceptance

Release of Impact Zone
& Economically
Disadvantaged Areas
Data

Pre-application
information
session

Rules on
delivery,
distribution, and
wholesaling





Notice of Application Acceptance

- Noticed at a CRC public meeting, to email list, posted on website, published in NJ Register.
- Will specify date on which CRC will begin accepting applications, and types of applications being accepted.
- Will detail full application requirements and expand upon what is in the regulations.



Resources

For information on ...	See/Go to ...
Cannabis business requirements	Cannabis Regulatory Commission www.nj.gov/cannabis
Getting a business started Business registration Certifications for diversely owned businesses	www.business.nj.gov Business Action Center Department of Treasury
General support for businesses	Chamber of Commerce

Q & A



NJ.gov/Cannabis
609-376-7300

