

Civic Engagement Capstone Project

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**CHALLENGES TO STARTING A CANNABIS RETAIL
DISPENSARY IN MINNEAPOLIS**

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Abstract

This project investigates the best practices for Minnesota to adopt for its new Cannabis Retail Dispensary law. Retail Cannabis was legalized in 2023, and the Office of Cannabis Management developed operating procedures based on the experiences in other states. The research focuses on how Minnesota and Minneapolis can effectively support and assist license holders to help them succeed. I examined the other states' laws and identified the successful approaches. Given that the IRS currently regulates Cannabis as a dangerous, illegal drug, every state must work around those federal limitations. Minnesota chose to prioritize licenses first to disadvantaged, social equity applicants and those who had been harmed by past unfair marijuana arrests. My analysis shows that without previous business experience or technical training, most license applicants benefit from state-supported technical and business education programs. The neighborhood's support and community engagement with other local companies also enhanced the likelihood of cannabis business success.

Keywords: social equity, community engagement, city zoning, retail cannabis, neighborhood support

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Introduction

Minnesota was the 23rd state to legalize Retail Cannabis Dispensaries in 2023. The early adopting states for retail cannabis, beginning in 2012, such as California and Washington, had both successes and failures while implementing their laws. Minnesota must work with the same challenges or risk repeating their past negative experiences. In this paper, I examined what is working in other states, how to avoid mistakes for the Minnesota program, and how to create policies that address immediate needs. The barriers are high for any incoming cannabis retailer. Still, the odds are against the average social equity applicant, who might need more resources and advantages than the applicant with a majority status background (California Cannabis Industry Association, 2021).

I hope that the Minnesota law was not built upon unrealistic expectations. I have a concern about the individuals who will be awarded retail cannabis licenses but have little business experience. Will their lack of capital, training, or business support, operating in a highly regulated industry, prevent them from getting the business started or succeeding?

Cannabis has been considered a federally controlled Schedule I substance since 1970 under the Controlled Substance Act, in the same category as heroin and LSD. Then, in 2018, the U.S. Congress legalized edible hemp in the 2018 Farm Bill. Lawmakers expected hemp plants to be used for textiles and non-intoxicating supplements. This law removed them from the list of Schedule I drugs and opened the door to legal THC in all 50 states if they choose to do so (Minority Cannabis Business Association, 2022).

Several state legislatures have legalized the use of marijuana for medicinal purposes, starting with California in 1996, usually followed by those states also legalizing hemp-based

THC edible substances and drinks. Based on Gallup polls, the percentage of U.S. residents supporting the legalization of marijuana has increased from 12% in 1969 to 70% in 2023 (Pew, 2024). However, a political partisan gap exists between Democrats and Republicans for legalization support. In 2023, the Minnesota legislature legalized medical marijuana and hemp-based THC products. At the closing of the 2024 legislative session on May 18, 2024, Minnesota voted to legalize the cultivation, packaging, sale, and use of Recreational Cannabis. Democrats controlled the state Legislature, and the bill was passed, with most Democrats and a handful of Republicans voting for it (Minnesota OCM, 2024, First Draft).

The underlying theme of this Minnesota law was Social Equity, framing it as a civil rights and a racial, social justice issue. Amendments were added on the final day to create a regulating oversight board and to expunge past low-level criminal cannabis convictions. Before leaving Congress in 2021, DFL House Majority Leader Ryan Winkler urged members “to view the bill through the lens of racial equity, that legalizing cannabis would help reduce economic disparities and take steps to eliminate the disproportionate toll marijuana prohibition has taken on communities of color.” He also stated that Black people are more than eight times more likely than white people to be arrested for possession and sale of marijuana in Minnesota despite comparable usage rates. Criminal penalties associated with cannabis prohibition have been unfairly applied to communities of color, especially Black Minnesotans (Walker, 2021, p.2).

Problem Statement

Recreational cannabis sales, use, cultivation, and packaging were legalized in Minnesota on May 18, 2023. The new law's social equity framework makes support and assistance crucial for the success of new businesses. The research statement section explains

that priority for licenses will be given to Black, Indigenous, and People of Color (BIPOC) applicants and those who have been convicted of marijuana crimes and their families, military veterans, and those who live in areas with high rates of marijuana enforcement or poverty. In the past, non-white users of marijuana in Minnesota were arrested at a higher rate than white users.

When designing the Rules and Regulations in 2024, the Minnesota legislature acknowledged that social equity license applicants might need to be on equal footing with others starting businesses. This is especially true when navigating the highly regimented process of applying for a license and then complying with a high degree of state regulation. Measures were taken to build and arrange programs to assist them as needed. The Cannabis Retail Dispensary business is new to Minnesota, and guidance can be found from other states with more years of legalization experience. The 2024 average failure rate for any new businesses is high – 20.4% fail in their first year, and only 51% survived past the first five years of opening. How much and what forms of assistance will be needed, and will it be enough to help inexperienced, new small businesses to succeed?

Research Questions

My research questions are: **How can Minnesota, Minneapolis, and the neighborhood groups support historically underserved or economically disadvantaged Cannabis Retail Dispensaries in Minneapolis? What agencies and programs are needed to assist them?**

Cannabis remains a Schedule I controlled substance, which is a significant obstacle for people of color forming new businesses. This fact limits access to capital and banking services that

force them to operate on a cash-only basis. The U.S. Congress could remedy this by rescheduling Cannabis to a Schedule III drug, and community reinvestment could be encouraged (Morris et al., 2021).

Minnesota must work together toward that challenge or risk repeating past negative experiences. In this paper, I examined what is working in other states, how to avoid mistakes for the Minnesota program, and how to create policies that address immediate needs. The barriers are high for any incoming cannabis retailer. Still, the odds are against the average equity applicant, who might not have the resources and advantages of the applicant with a majority status background (California Cannabis Industry Association, 2021).

Positionality

I am a lifelong Minnesota resident and a white person. I have helped small businesses and nonprofits as an accountant and neighborhood activist. My connection to individuals previously impacted by discriminatory cannabis enforcement was with one of my brothers. He was arrested and convicted of a felony in the late 1960s. He was the only teen over 17 years old in a car stopped by the police with kids smoking a joint. Another brother, after he became an attorney, was able to get his record expunged after 5 years of no further offenses. My interest and concern are fairness in applying and enforcing laws and the availability of economic opportunities. I will examine the legislative process and whether the Minnesota bill was fast-tracked at the end of a session to right a previous wrong.

Methodology

This paper deals with implementing Minnesota's 2023 legalization of Retail Cannabis sales and dispensaries. Minnesota designated 2024 as the year to create the Operating Rules & Regulations for the new industry. This project is a study to determine the best way for the City of Minneapolis to establish these dispensaries. The research questions are: How can Minnesota, Minneapolis, and the neighborhood groups support historically underserved or economically disadvantaged Cannabis Retail Dispensaries in Minneapolis? What agencies and programs are needed to assist them?

The Minnesota law that legalized the cannabis industry, including the federal laws and regulations that guide it, is a starting place for understanding the details and Congressional intent. I reviewed the features of Minnesota state agencies and governmental reports that demonstrated how the social equity requirements were developed for license pre-applications. Minnesota is starting with social equity licenses, with the application process beginning with pre-approval of social equity individuals who meet those qualifications, followed by a lottery to choose among those applicants for the number of licenses they will award. Minnesota sales for Retail Cannabis cannot begin until early 2025.

Since Minnesota is the 23rd state to legalize the start of this new industry, I found that 13 of 18 states have existing programs using social equity factors in their licensing procedure for retail cannabis licenses. I examined official documents from the states that have enacted retail cannabis laws. These other states have regulations and reports, which I read to determine which were successful and, at times, created problems. In addition to the specific state laws, I read

opinion reviews, newspaper articles, and websites that evaluated and commented on how these programs operate.

In addition, advocacy groups have websites and blogs with various viewpoints and opinions on the success or failure of each state's specific social equity features. Using a triangulated approach, I looked for patterns, similarities, and differences in the information reported. The best way to answer my research questions is by using multiple sources and different views to discover a theme (Creswell, 2018).

Because the first Retail Dispensary in Minnesota outside of tribal reservations will not exist before 2025, I began by interviewing the existing THC/hemp stores to investigate what agencies and programs are needed to make the Minnesota program successful. Personal interviews with staff at some existing hemp/THC/hemp shops provide valuable case study information about their experiences interacting with the Minnesota regulatory agencies, their neighbors, and community groups. My grounded theory approach will help identify policies or implementation steps that could make the program successful.

Collecting data and researching other states' laws led to selecting Minnesota's best practices. I hope to gain insight into the context of social equity from various states' existing programs operating for a substantial period. Learning about the successful experiences and failures of these states should help guide the state of Minnesota in developing a successful program.

I examined the federal laws, the successes and failures of other states, and the local environment where the cannabis shops will be established. Although public support for the legalization of cannabis has increased over the years, local attitudes and zoning will regulate

where they will be allowed. Then, I reviewed the community programs available to provide the training and assistance necessary for establishing neighborhood shops.

Literature Review

Minnesota is developing the structure for the cannabis retail industry in 2024, focusing on the rules and regulations. As they build their programs, all states must follow the 2024 federal foundation set by the IRS in 1984 and the 2008 rules the U.S. Congress set for cannabis businesses, especially the restrictions. By examining the current federal regulations, Minnesota is building flexibility into its rules and regulations as the federal guidelines may change.

Federal Restrictions

Although the widespread support for cannabis has grown across the states since 2012, Cannabis remains a Schedule I harmful drug under the Controlled Substance Act (CSA) in 2024 (Cole, 2013). The law prohibits the sale of recreational cannabis and its transport from states where it is legal under state law to other states. The IRS regulates cannabis businesses under section 280E of the Internal Revenue Code, disallowing expense deductions for anything other than the cost of goods sold (IRC 26 §208E, 2024).

On May 21, 2024, the U.S. Department of Health and Human Services (HHS) made a marijuana rescheduling recommendation that called for moving cannabis from Schedule I to Schedule III on the federal government's list of potentially harmful drugs (Schedules of Controlled Substances, 2024).

Businesses in states that have legalized the sale have had to work around the drug's continuing federal prohibition. If cannabis were rescheduled to a Schedule III controlled substance, it would add tax savings and remove a significant barrier to profitability (Johnson, 2024). There is a growing interest in reforming federal laws to make them more favorable to the cannabis industry, but U.S. Congress seems to be stalled. Accepting credit and debit card sales and getting loans and financing can be difficult as long as cannabis is still a federally controlled substance.

According to Minneapolis cannabis attorney Jason Tarasek, "Rescheduling cannabis to a III category would eliminate the 280E tax penalty and make every adult-use cannabis business much more profitable, and hopefully, this will lead to bank reform" (Johnson, 2024, p. 3). The U.S. House passed the SAFER Banking Act in the 2023-2024 session but is awaiting U.S. Senate passage (S.1323, 118th Congress, 2023-2024). Passage would allow states with legal cannabis businesses access to traditional financial services, reducing the risk for financial institutions, lenders, insurers, and others serving the industry despite federal restrictions on cannabis. Urness wrote in an online article in Business Law Today that the Act would provide a "safe harbor," ensuring that businesses are not penalized for offering services to cannabis businesses (Urness, Kouhoupt, 2024). Some banks and credit unions do serve the cannabis industry, but the majority do not. Without the ability to use these banking services, many retail shops operate using cash-only, exposing them to safety and security risks.

Minnesota Legislature and Office of Cannabis Management

The Office of Cannabis Management (OCM) was established on April 20, 2023, by enacting HF 100, which legalized cannabis. It is charged with developing and implementing the

operational and regulatory systems to oversee the state cannabis industry. Throughout 2024, the agency will establish the Rules and regulations for the industry's operation. The underlying theme of this Minnesota law was Social Equity, framing it as a civil rights and a racial, social justice issue. Initially, social equity applicants would have priority in the timeline for applying for licenses. The OCM has significantly improved the social equity priority in the license pre-application process, ensuring that underserved communities have a fair opportunity to participate in the cannabis industry. An attempt to reverse some of the damages done during the “War on Drugs” was an essential feature of the new law. The qualifications for social equity status are described on the OCM website (Minnesota OCM, 2024, Qualifications). Those eligible include any of the following: those having previous cannabis convictions, who were historically underrepresented, who lived in low-income areas during the past five years, or who are veterans.

Meeting any of these characteristics can initially qualify an applicant for social equity status. There is no cost to an applicant to complete the social equity verification process. Once the social equity is confirmed, an applicant can work on the pre-application form. A pre-application form was developed for them to complete online and submit to the OCM if they meet that requirement. The application included many parts describing plans for their cannabis retail business:

- Disclosure of Ownership and Control
- Capitalization Table
- Preliminary Security Plan
- Preliminary Business Plan
- Attestation of Labor Peace Agreement

- Preliminary Training and Educational Plan for Employees
- Preliminary Standard Operating Procedure (SOP) for Quality Assurance
- Preliminary SOP Inventory Control, Storage, and Diversion Prevention
- Preliminary SOP Accounting and Tax Compliance
- Preliminary Operation Plan -for a retail license

(Minnesota OCM, First Draft, 2024)

The OCM expanded on the requirements to explain that retail stores must provide security. This includes an alarm system, video surveillance, and an immediate response protocol, which must be initiated within 30 minutes of a security event (Minnesota OCM, 2024). An inventory management system is also required to track inventory. A statewide system, called Metric, is to be used by all dispensaries. It is used to maintain an accurate inventory of all products regulated under the Cannabis law that the business has in its possession. A system must be used to report all sales, transfers, and receipts of products. The software must be updated and accurate each business day. The inventory records must be accessible upon request of the OCM. These requirements, among others, require professional design, installation, and operation (Minnesota OCM First Draft, 2024).

Initially, the applicant was required to finance the ownership of a social equity business 100%. The 2024 Minnesota Legislature approved changing the financing requirement from 100% to 65% to allow more social equity license applicants to form partnerships and access capital by bringing in investors. This change will help applicants without family wealth or connections. Social equity applicants would be allowed to apply for licenses first, improving their pre-approval opportunities. The licenses are not location-dependent at this point in the

license application process. The applicants selected in the pre-application and the lottery will have final steps to complete before a license is awarded.

The window for pre-application for many categories of social equity licenses closed on August 12, 2024. Of the total, 578 applicants applied for 52 retailer licenses in Minnesota. A lottery was planned for November 26, 2024, with additional licenses to be awarded in future application rounds. However, the lottery was paused because of multiple lawsuits filed on behalf of plaintiffs who were not allowed in the lottery because their applications were denied. The case was sent to the Minnesota Court of Appeals.

According to the procedures, after the lottery and securing a preapproval license, an applicant finds a location that meets the space's zoning and planning guidelines 300 feet from a school. No buffer space is required between cannabis shops because it would help fill more vacant storefronts within the city.

The Ownership and Control question in the application describes the group's planned interest and governance control in their first draft of the OCM proposed rules. It allows a group to access capital not held by traditional banks. Although no business experience is required of social equity applicants, the questions they must answer assume they have previous business experience. Unless an inexperienced applicant has partnered with someone with that experience, it would be challenging to answer the questions thoroughly. Someone with business experience would be better equipped to develop the required business or a security plan (Minnesota OCM, 2024, Final Draft). According to an article in JMBizDaily, the federal prohibition of marijuana stops many banks and traditional lenders from providing funding to cannabis shops, which are not eligible for loans from the U.S. Small Business Administration (Jackson, 2024). Many startups and established companies seek funding from

family or friends and self-funding if they have the resources or debt financing opportunities. Jackson noted that debt financing will become popular with the lowered federal interest rates during 2023-24. Funding from diverse investors can be problematic if it creates predatory lending.

Through the Partnership and Pathways programs, the Minnesota Job Skills Partnership (MJSP) grants are available to accredited Minnesota educational institutions. Also included are public, private, or nonprofit entities for pre-development to assist in planning the training programs for cannabis businesses. A Minnesota cannabis business, after receiving a license, may be eligible for the Department of Employment and Economic Development's (DEED) numerous state-funded programs, but most run through partner organizations (Minnesota DEED, 2024).

This agency works with the Office of Cannabis Management, intending to promote the success of the Minnesota-based legal cannabis industry through technical assistance, loan capital, and workforce development training. The Minnesota DEED has two grant programs for cannabis retail distributors that focus on supporting social equity applicants: CanTrain and CanNavigate. The CanNavigate program helps eligible organizations navigate the regulatory structure of the legal cannabis industry. Grant funds may be used to develop technical assistance resources for the company and technical assistance to individuals. The CanTrain program awards grants to eligible organizations to develop and implement a workforce development program that provides support, navigation, and individual training. The grant funds pay for tuition, fees, material costs, and support services to help ensure success (Minnesota DEED, 2024).

Other States' Legalization Process and Experiences

Minnesota is in the early start-up, rule-making stage of the cannabis retail industry and can learn from other states' struggles, failures, and successes in various areas. Social equity in the marijuana industry has been picking up steam for years now as cannabis prohibition continues to be repealed state-by-state across the United States. Early on the path to legalization, social equity was an afterthought. However, now, lawmakers or regulators often weave the concept into licensing structures as they craft new state-level marijuana industries. Specific criteria are often established to prioritize licensure for entrepreneurs who can demonstrate legitimate harm from marijuana prohibition.

Such criteria—and the definitions of which entrepreneurs are eligible and which are not—vary significantly from state to state. According to the Green Market Report, no definitive database tracks social equity businesses or licenses nationwide. It is not known how many of those businesses are operational or profitable, making it difficult to discern how much progress has been made by social equity programs (Schroyer, 2023).

Colorado and Washington state were the first two states to legalize retail cannabis in 2012. CU Boulder Today reported that residents in states where cannabis has been legalized use marijuana 24% more frequently than those living in states where it remains illegal. Researchers found that increased behavioral problems do not necessarily accompany the increased use, but heavy use within some groups creates health risks (Marshall, 2022).

States that legalized regular cannabis businesses and later added social equity features had a difficult time due to an already crowded market. In 2018 Oregon established a Social Equity and Economic Development Program (SEED) for social equity applicants because that group lacks education and capital. The Oregon Legislature website reports:

Education is key for an equity applicant as it ensures they are knowledgeable about the cannabis business and better know how to manage the financial and commercial obligations required when operating a business. Application workshops could be established to help them prepare and move through each stage and learn strategies. Partnering with established cannabis businesses and attorneys in educational training and outreach would be essential. (Oregon SEED Program, 2023, p.7)

The city of Portland transferred the SEED program to Prosper Portland in June 2023. However, the Oregon SEED program no longer funds grants as of FY 2024-25. All existing grant awards will continue to be funded (Prosper Portland, 2024).

New York has been slow in addressing social equity in the cannabis program until 2024. In 2022, the state started with those who had been arrested for cannabis offenses and who had previously operated a business, which was necessary to secure a location for a license (Short, 2024). The process was slowed during 2022 because many lawsuits caused delays. New York's opt-in or opt-out clause in the law complicated the acceptance of licenses for cities, towns, and villages throughout the state. In the summer of 2023, only three dozen out of 900 applications were approved. In addition, thousands of unlicensed shops outnumbered the legal stores.

The state also needed help dealing with unlicensed dispensaries. Enforcement was increased with fines and seizures, then shutting them down with the help of inspections by local municipalities (Coleman, 2024). New York plans to offer loan programs and technical assistance - the two things most needed. New York began medical marijuana legalization in 2015 and engaged with Local 338 of the United Food and Commercial Workers, RWDSU/UFCW. Representation was expanded to retail dispensaries, cultivation, manufacturing, processing, and distribution of cannabis as those industries were legalized (Local 338, 2023).

California legalized retail cannabis in 2016, but since 2022, the state has experienced many problems with legal loopholes and stiff regulations hampering long-time growers and sellers (McGreevy, 2022). In his online Los Angeles Times report, McGreevy explains that compromises were made to get approval for Proposition 64, and large operators backed by venture capital funding won vital concessions. Decriminalizing cannabis resulted in a growing illegal market with unlicensed farmers and sellers. Proposition 64 gave cities and counties the power to veto allowing cannabis businesses within their jurisdictions. Five years after the launch, two-thirds of California cities prohibit retail cannabis stores. McGreevy quotes Robert Solomon, a UC Irvine law professor, who says, “Local control is a disaster for cannabis in California” (McGreevy, 2022, p. 3).

To address public dissatisfaction, California Governor Newsom, in a February 14, 2023 press release, announced \$20 million in grants to cities and counties to develop and implement local retail licensing programs. This incentivized more cities to favor cannabis businesses (Department of Cannabis Control, 2023). Legal operators say the state has not been aggressive enough to combat illicit growers and dealers. High taxes, fees, and too many restrictive regulations hinder the legal market. California's total tax on cannabis sales is 34.5%. It includes a 15% state excise tax, a 10% city tax, and a 9.5% county and state sales tax (Koseff, 2022).

Cannabis retailers face a barrier to entry in many states, which requires license applicants to provide proof of capital. This requirement proves that an applicant is financially prepared to incur the cost of operating a compliant cannabis business. Four states, Florida, Delaware, Maryland, and Vermont, out of 16, do not require proof of a specific amount of capital but instead award points based on applicants' ability to provide adequate capital.

States use several methods to select applicants for cannabis licenses. Most states use a merit-based system to select social equity licenses, and a few use a lottery method. With a merit-based system, each applicant is scored using the same criteria: experience, viability, capitalization, operational, marketing, security, and community investment plans. A lottery system requires applicants who meet the basic social equity application requirements to enter a lottery. There are some concerns that the lottery system does not necessarily grant licenses to the most qualified applicants.

Colorado and Washington were the first states to award cannabis retail licenses in 2012. Still, Maryland was the first state to open a cannabis license round exclusively for qualifying social equity applicants in 2024. According to the National 2022 Cannabis Equity Report states:

Of the 15 state social equity programs, not one has resulted in an equitable cannabis industry on all four measures: industry, justice, community, and access. The failure can be attributed to a disconnect between commitment to the goal of equity and the execution to achieve equity. This disconnect is largely the result of the contradiction between the stated priorities they put forth and support both internally and at the state level.” Among the few social equity programs that provide funding for social equity applicants and licensees, fewer still offer access to timely funding to support their market entry and participation. (Minority Cannabis Business Association, 2022, p. 3-4)

Massachusetts’ Controlled Substance Act was established on September 1, 2017, by a Cannabis Control Commission. “It is required to adopt procedures and policies to promote and encourage full participation in the marijuana industry by people from communities that have been disproportionately harmed by marijuana prohibition “ (Cannabis Control Commission, 2023, p. 10). A Social Equity Program (SEP) was designed during the 2022 legislature to create and build sustainable pathways into the retail business by pairing accepted applicants with qualified vendors and requiring them to take free universal courses. This is followed by

professional training and technical services with mentoring. On completion of the program, participants will have acquired the tools and training to apply for and obtain licenses through the Cannabis Control Commission. Fee waivers and reductions will be available to participants once retail operations are established. The goal of providing the training before awarding the licenses is a way to achieve success.

Community Concerns & Involvement

As more states legalize cannabis use and sale, there is a need to balance easy access with public safety (Twohey et al., 2024). If efforts are successful in moving cannabis into a less restrictive category of drugs, more research into the health benefits and risks will be possible. The federal legalization of hemp in 2023 should remove other barriers to scientific research. In 2024, experts say that not enough research has been done to educate the general public on health outcomes from the use of recreational cannabis.

A report of cannabis-related calls to poison control in Minnesota more than doubled between 2018-2022. In 2022, edible THC products were the most common cause of cannabis-related poison control calls for children's accidental consumption. The potency has increased through the years, and there is concern that when cannabis retail stores open in 2025, the overdoses may increase even more (Faircloth & Johnson, 2024). Community leaders suggest that accurate package labeling will be helpful for adults who may want to try cannabis for the first time. The Minnesota Office of Cannabis Management (OCM) has included required labeling in the Rules and Regulations to meet this need for product safety.

Fears about increased crime surrounding cannabis retail shops may cause residents to be uncomfortable with the use of the drugs and resist allowing retail shops in their neighborhood.

The Minnesota law stipulates that cities can pass interim ordinances prohibiting cannabis businesses until January 1, 2025. A WCCO radio report explains that this planning tool allows cities time to study the issue and see what regulations will be implemented (Cummings, 2023).

A Law and Social Inquiry article examines race, class, and stigma in California related to cannabis. It was found that, on average, socially and economically prosperous cities expressed higher support for cannabis legalization. However, cannabis businesses are more likely to receive permits for locating shops on the outskirts of the town in areas that are socially and financially distressed. This demonstrates the fact that "stereotypes generated by the war on drugs have not disappeared after the passage of new cannabis laws. They continue to perpetuate the marginalization of disadvantaged individuals and places" (Moiseeva, 2023, pp. 2-3). A protectionist attitude was adopted in California community groups facing cannabis retail development in their neighborhood due to fear of criminal activity. For Minneapolis, which is just starting the industry, it seems that support from neighborhood organizations and groups can facilitate and welcome the establishment of cannabis retail dispensaries in the area if their neighborhood residents support the product's sale.

The City of Minneapolis recognizes that assistance is needed for a business to succeed. In 2023, it established a Business Technical Assistance Program (B TAP) to support business growth in the city (Minneapolis B TAP, 2023). B TAP provides consulting support to businesses located in the city by contracting with local organizations that work directly with entrepreneurs and small business owners to plan, launch, and grow businesses in Minneapolis. Neighborhood Business Associations include the West Bank Business Association and Redesign Inc. for companies and entrepreneurs in Seward and Greater Longfellow neighborhoods. The Lake

Street Council services businesses located within four blocks of Lake Street or are planning to move there, as well as the Northside Economic Opportunity Network (NEON).

Several ethnic and cultural organizations, including the African Development Center, the Comunidades Latinas Unidas en Servicio (CLUES), and MEDA, offer business education in Somali, Amharic, Spanish, Hmong, and other languages. These organizations provide business plan development, guidance on licensing, applying for loans and lines of credit, creating a business marketing strategy, and other business development consulting (Minneapolis B TAP, 2023).

A section of the Cannabis Retail application involves Labor Peace Agreements. While joining a labor union is not required, this agreement allows companies to honor their employees' right to bargain collectively without creating an adversarial relationship. In a contract, the business agrees with a union not to interfere with its organizing efforts, and the union agrees not to interfere with the company's operation (Justia, 2023).

In Minnesota, the United Food and Commercial Workers, UFCW1189, is the Cannabis Workers' Union. "It has led the development and stabilization of the emerging cannabis industry through our Cannabis Workers Rising Campaign" (UFCW1189, 2023, p.1). Since 2014, they have been advocating for workers in the medical cannabis industry. The union developed and successfully negotiated and executed Labor Peace Agreements (LPAs) with both of the medical cannabis companies operating in Minnesota.

Minneapolis is a liberal and pro-union city. The Labor Peace Agreement required for pre-applications would be welcomed. These agreements have been identified in various jurisdictions in 11 states, including Minnesota. Three states have banned labor peace ordinances statewide: Louisiana, Georgia, and Tennessee. The U.S. Chamber of Commerce states, "Labor

peace agreements are one method by which state and local governments can give unions an organizing advantage without implicating federal law. They have one underlying purpose – to pressure employers into granting organizing concessions highly prized by unions” (U.S. Chamber of Commerce, 2023, p.10).

In a Cannabiz website posting, an article discussed several communities that are championing social equity; Benard wrote that “Community and neighborhood organizations that support social equity programs owe plenty to those individuals who were imprisoned for non-violent marijuana offenses. Many associations and groups are fighting for social equity in cannabis and deserve support for leading the way” (Bernard, 2020, p.1).

In 2022, Zencity, a website blog, surveyed over 200 communities in states that recently legalized cannabis about retail cannabis coming to their neighborhoods. When asked about their concerns, popular responses were that 54% focused on the community's financial benefit rather than safety concerns. 19% mentioned safety centered on violence and crime, with some concerns about road safety, and 11% cited health implications. The post suggests that costs and benefits to a community need to be considered when a retail cannabis business is being considered (Rabinovich, 2023).

The literature review, which includes current federal laws, other states' cannabis program successes and failures, and the status of community support and involvement, gathers the knowledge necessary to face the challenges of successfully implementing the cannabis retail industry in Minneapolis and Minnesota.

Study Findings

Designing a Minnesota cannabis retail industry is easier said than done. Every state that has legalized retail cannabis has been challenged with the fact that marijuana or cannabis has been considered a dangerous Schedule I drug by the IRS and the DEA for over 40 years. Even as public opinion has gradually considered cannabis more favorably and the stigma lessened, cannabis is still federally in the same category as heroin and LSD. The 2013 SAFE Banking Act is also a barrier for cannabis businesses to access loans, banking services, and the use of VISA or MasterCard in their shops. This limitation forces them to be cash-only operations.

Federal recommendations and proposals have been made to recategorize cannabis as a Schedule III drug in 2023 and 2024. A SAFER Banking Act has been approved in the U.S. House but is stalled during the 2024 session in the Senate. Passage of this Act and rescheduling cannabis would signal a shift in federal policy that would make lenders and card processors more comfortable offering services to cannabis businesses. Until or without U.S. legislative action rescheduling cannabis, new retail businesses depend on support at the local and state levels.

To learn how local THC/hemp-derived shops are operating, I visited and interviewed two in Minneapolis. The workers were not the owners, so some of my information was limited to their knowledge.

Zaza Cannabis Dispensary at 3617 E Lake St in Minneapolis was a store in operation since Minneapolis allowed sales of hemp-derived products. I was told the store only buys inventory: gummies, edibles, and THC beverages that meet the state guidelines, but no flowers. They operate on a cash-only basis, have an on-site security guard, are covered by

video surveillance at all times, and scan an ID for every person entering the shop. The worker said she was looking forward to getting a retail cannabis license in 2025 as soon as the second batch of applications becomes available.

The worker stated that because many of the businesses on E Lake Street had been impacted by the George Floyd unrest, the neighborhood was interested in filling empty storefronts. She had no personal knowledge of support from the area residents besides the customers. This shop is one of several shops owned and operated by Zaza.

In November, a month after the interview, a Minnesota Star Tribune article reported that complaints were filed by the Office of Cannabis Management claiming that Zaza sold hundreds of unlicensed marijuana products containing well over the state legal limit of 0.3% THC. The OCM is asking the Hennepin County District Court for a right to destroy as much as \$20,000 worth of products after inspections revealed the company was selling illegal products. A suit or legal challenge by OCM could jeopardize Zaza's eligibility to secure an adult-use cannabis license when they are issued in the next round (Gilyard, 2024).

The second Minneapolis shop I visited was **Hemp House at 719 W 26th St.** This shop is also one of several owned by the company. They do most of their marketing online, looking to tourists and downtown events to attract new customers. Many sales are made online, and delivery services are available by car and mail.

The worker was unaware of any store connection to the other Uptown business community or neighborhood. She suggested that perhaps it was because they had several locations and were not tied to a specific area or culture. The only theft she had experienced from the store was the loss of dollar bills left in the tip jar. She assumed that when the license period opened again, the shop in the suburbs would most likely apply for a cannabis license.

She acknowledged that much more security would be needed there, with video surveillance, security guards, and fortified entrances and windows necessary.

The Seward neighborhood does not currently have hemp shops, but it has established a method of introducing new businesses on the Seward Neighborhood Group (SNG) website. Working in partnership with the Seward Civic and Commerce Association (SCCA), they use an online newsletter to promote neighborhood businesses and hold events to encourage patronage at least twice a year. During the summer, in years when Open Streets does not happen, an event is held at an area park where local businesses set up tables to introduce and market themselves. A similar event is planned for December each year - a winter Seward Frolic & Holiday Art Market. A map of participating businesses and a Bingo game are designed to encourage residents to visit as many local stores as possible for a prize.

Organizations have developed an online Small Business Job Board, which allows small businesses and non-profits to connect with job seekers. The City of Minneapolis funds a Façade Improvement Matching Grant, which works to revitalize and sustain the economic vitality of the neighborhood commercial district through public/private investment in façade projects for commercial properties.

Another organization, Redesign, is a community development organization that serves adjacent neighborhoods and the Seward area. The city assigned this organization to administer matching grants of up to \$5,000 per storefront in this area. Improvements include exterior painting, doors, windows, lighting, signage, awnings, and murals, to name a few.

Neighborhood businesses and residents are encouraged to join these organizations to network with each other, become part of the neighborhood, and possibly share business vendor

services. Becoming a board member of any of them enhances one's connection to the neighborhood and the success and viability of the businesses.

One area where cannabis license holders have some control is the community where they are located. Establishing a relationship between the shop and the neighborhood is essential in understanding the community's preferences or fears. To be part of the community is helpful for both the businesses and the residents. The adage “it takes a village” could apply to the case of supporting cannabis businesses because of the complexity of the new retail industry. Anything new can cause fear or concern in the community, but more information and greater understanding could help alleviate some of the uncertainty.

In other states, some community opposition made it clear how important it was to form relationships with other businesses and residents before introducing a cannabis shop. Business affinity groups have helped mentor and direct resources to various social equity applicants attempting to start a business. States with successful social equity programs, like Massachusetts, require and provide free business education for license holders.

Minnesota plans to provide grants to organizations that fund investment and technical assistance to communities impacted by previous cannabis prohibition. Many Minneapolis community development organizations are scheduling technical and business assistance. There is no single way to guide members of any group to success, but various supportive agencies and organizations can provide technical assistance and understanding of a highly regulated industry.

Recommendations

Minnesota is designing and implementing a new Cannabis Retail industry. With guidance from other states' successes and mistakes, Minnesota can create programs to help license applicants. I have listed five recommendations below that will assist the state and cannabis retailers in achieving success.

Rescheduling Cannabis:

Most cannabis industry experts and even the IRS have suggested that Cannabis should be rescheduled to a III category. This would allow retail cannabis shops to take ordinary tax write-offs and remove a significant profit barrier. Until the IRS reschedules Cannabis to a less hazardous category, traditional banks and credit unions will not risk becoming involved in an illegal industry. The SAFER Banking Act should be passed in the U.S. Senate, which could lead to the lessening or removing banking restrictions.

Banking and Access to Capital:

Minnesota should follow Delaware's legislative lead by adopting a similar regulation to protect banks serving state-licensed cannabis businesses. Following enactment, banks and credit unions would be safeguarded from state-level prosecutions. The Act will help ensure that cannabis businesses have access to necessary financial and accounting services (MJBiz Daily, 2024) .

“The difficulty cannabis entrepreneurs face in accessing capital is also a significant reason why initiatives aimed at benefiting groups disproportionately impacted by the war on drugs have fallen short” (Rosendal, 2024, p.3). Disadvantaged groups typically do not have adequate cash or credit for start-up expenses. Banking protection legislation is designed to help licensed operators compete against the illegal market and open up access to loans.

Business Education/Training:

Minnesota has created grants to fund training programs at the local levels to prepare license recipients with the business and technical knowledge needed. More affordable or free educational options are needed. Because the state requires compliance on so many levels within the legalized cannabis industry, online and in-person training programs should be readily available. All licensees must track inventory and sales and report daily to the OCM using state-provided software. Training would ensure compliance with regulations and procedures and encourage uniformity among business reporting requirements. Various Business Development agencies around the state in major cities and neighborhoods also provide technical training and assistance. Access to these programs should be promoted and available to all license holders. Mentoring business relationships should be offered when necessary.

Community Support and Neighborhood Acceptance:

A new cannabis shop must engage the community to succeed. Collaborating and building partnerships with other neighborhood businesses is a critical step. A business development organization serving the community is a valuable connection for a shop owner to make for access to various types of city and state resources. The combined efforts of the

residents, business organizations, and development agencies support and promote a new cannabis business to enhance the community.

Status Reports on Lottery License Recipients:

The first license lottery for social equity applicants was scheduled for the first week in December. However, two-thirds of the applications were rejected and would be barred from the lottery. Many of the rejected applicants stated that they were not notified of the reason for a rejection or offered an opportunity to correct any perceived error. Many filed lawsuits, and the lottery was delayed until a Court of Appeals decision could be made.

After the cannabis is up and running, the effectiveness of the social equity program should be tracked and measured to gauge whether it is meeting its goals and the intended purpose of providing opportunities for previously underserved populations. The operations of the Office of Cannabis Management (OCM) should be reviewed and reported periodically to certify that they are fulfilling their mission. Adjustments to procedures or policies should be made whenever necessary.

Limitations and Future Research

After the first round of social equity licenses are awarded and the shops are allowed to open, they have 18 months to select a location and set up shop. Can shops raise the capital needed to open and operate? Can they fulfill the required reporting responsibilities to the Office of Cannabis Management?

If an efficient credit card payment system is not approved federally, a host of logistical headaches and operational disadvantages for the industry will continue to exist. Cash-only businesses must rely on workaround solutions that fall short of standard retail practices. This creates security risks and opens the door to currency fraud and inaccurate bookkeeping. It drives up the cost of financial services for those lucky enough to secure banking relationships.

Health and public safety problems arising from the use of cannabis have not been broadly studied yet. A recommendation from a Wood Johnson Foundation article suggests that because the evidence on the effects of cannabis liberalization on population health is limited, policymakers should adopt a public health-informed approach to the legalized cannabis supply. The article predicts that more efforts will help uncover public safety, comparative health harms, and benefits of various policy and regulatory approaches (Haffajee & Mauri, 2021).

The motivation and goal of using social equity in the cannabis retail industry was to address historical damages caused by the War on Drugs. It should not be realistically expected to solve the problems of social and economic disparities completely. Much more work is necessary to address the causes and current needs of the disadvantaged population.

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