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Pot biz lights up

Medical marijuana investors count on secrecy, profits and expansion

By [Kari Lydersen \(by-author-79-1.html\)](#)

About the article

This article is the product of the first collaboration between Illinois Times and the Better Government Association. The BGA is an independent, nonpartisan and nonprofit government watchdog that specializes in investigative reporting with media partners throughout the state. The BGA's Rescuing Illinois Project is an ongoing series of in-depth reports examining state government and its impact on the public.



Marijuana plants grow in the flowering room at Compassionate Care Foundation, a medical marijuana dispensary in New Jersey.

PHOTO BY DAVID M WARREN/TRIBUNE NEWS SERVICE

Pot biz lights up

The 900 block of West Lake Street is the northern border of a meatpacking and warehousing district now occupied by trendy Chicago restaurants and bars.

If this company, Clinic West Loop, gets its way, that stretch of road will also be home to one of the 13 medical marijuana dispensaries scheduled to open next year in Chicago as the state rolls out the medical cannabis pilot program created by legislation passed and signed into law by Gov. Pat Quinn last year.

A subsidiary of a consortium called Green Thumb Industries (GTI), Clinic West Loop has applied for licenses for four marijuana cultivation centers and three dispensaries statewide.

Their team includes The Clinic Colorado, a nonprofit policy and lobbying group that also operates six clinics in Denver; Hillard Heintze, a security risk management firm co-founded by former Chicago Police Superintendent Terry Hillard; and Terrance Gainer, former Illinois State Police director and former Chicago police detective.

While it's ironic that a couple of former cops are now eager to provide security expertise for marijuana providers, Clinic West Loop is just one of several hundred applicants awaiting the state's announcement, expected in December, that determines who will get a stake in what is expected to become a booming and highly lucrative new industry.

But getting in on the ground floor of Illinois' medical marijuana business isn't cheap or easy, a BGA Rescuing Illinois investigation details. The opportunity is drawing an elite crowd of applicants from the world of high finance, along with a flurry of technical, legal and marketing experts from states where medical marijuana has been legal for years.

That rush of big money and power, along with Illinois' sorry track record of tricky deals, has some applicants questioning whether selections will be influenced by cronyism, politicking and mystery.

"Plenty of people contacted us saying they would like to apply for one of these licenses, but they think the application process is going to be rigged and corrupt and they don't want to waste the money if it's going to be someone's brother-in-law getting the licenses," said Dan Linn, executive director of the Illinois chapter of the National Organization for Reform of Marijuana Laws (NORML).

State officials disagree. They vow an honest selection process, free of influence peddling, and assert that any mistakes or problems made along the way will be corrected.

"No law is perfect, no set of rules is perfect, and there will probably have to be adjustments - I'll be there to make those," said State Rep. Lou Lang, D-Skokie, lead sponsor of the law that created the four-year pilot program and presumably laid the groundwork for future and potentially expanded medical marijuana legislation.



Lara Herzog joins other workers in the trimming room at Medicine Man in Denver.

PHOTO BY KAI-HUEI YAU/TRIBUNE NEWS SERVICE

Applications roll in

In total, the state received 214 applications for up to 60 dispensary licenses and 159 applications for 21 cultivation centers statewide, with each application costing \$5,000 and \$25,000 to file, respectively.

Cultivation center applicants must show proof of \$500,000 in liquid assets and post a surety bond of \$2 million to the Illinois Department of Agriculture; dispensary hopefuls must show \$400,000 in liquid assets. There will be two cultivation centers in Chicago and the northern suburbs.

These numbers show just how big people expect Illinois' medical marijuana industry to become. Their hopes are bolstered by financial data from other states with medical marijuana and projections regarding full marijuana legalization, which some see in the cards for Illinois down the line.

For example, Michigan brought in \$10.9 million in fees from its medical marijuana program last year, providing significant revenue beyond the \$4 million the program costs to administer. And the blog [Wallstcheatsheet.com](http://wallstcheatsheet.com/) (<http://wallstcheatsheet.com/>) recently predicted that Illinois is among the seven states with the greatest potential revenue if marijuana were fully legalized.

<http://wallstcheatsheet.com/business/7-states-that-would-earn-the-most-money-by-legalizing-marijuana.html/?a=viewall> (<http://wallstcheatsheet.com/business/7-states-that-would-earn-the-most-money-by-legalizing-marijuana.html/?a=viewall>)

It estimated that an Illinois marijuana industry could bring in \$544 million in revenue, and \$126 million in taxes to the state.

The teams applying for cultivation center and dispensary licenses appear typically to be made up of successful local businesspeople from a variety of sectors along with wealthy financiers and expert growers and sellers from states like California and Colorado where medical marijuana has been legal for years.

"This is the hottest business opportunity in the United States," said attorney Bradley Vallerius about legalized marijuana in general. "An

already existing market made legal. An opportunity to get in on the ground floor of a new industry, to become the Budweiser of marijuana, to secure family wealth for generations.”



A “budtender” shows customers some hash oil at Evergreen Apothecary in Denver.

PHOTO BY KAI-HUEI YAU/TRIBUNE NEWS SERVICE

Checks and balances

More than 23 states and the District of Columbia have legalized medical marijuana and four of those states and Washington, D.C., have legalized marijuana for recreational use.

Illinois’ medical marijuana law is among the country’s strictest, many experts say, with a relatively limited list of three dozen qualifying medical conditions for patients, high fees and standards for dispensary and cultivation center owners, strict operational rules and a promise of tight regulation.

Applicants had to propose extremely detailed security plans, undergo background checks, submit personal tax returns and provide various other documents ultimately resulting in single applications filling multiple bankers boxes. A cottage industry has sprung up for lawyers and consultants assisting with applications.

“It’s kind of putting marijuana on the same playing field as plutonium,” said Chris Lindsey, legislative analyst of the national Marijuana Policy Project, which favors legal regulation of marijuana sales similar to selling alcohol. “It’s pretty phenomenal how high the bar is” to even apply for a license.

The patient ailments eligible for medical marijuana under the Illinois law include: cancer, HIV, lupus, muscular dystrophy, severe fibromyalgia and about 30 other diseases. Medical marijuana is typically used to treat pain, nausea and other symptoms associated with these diseases.

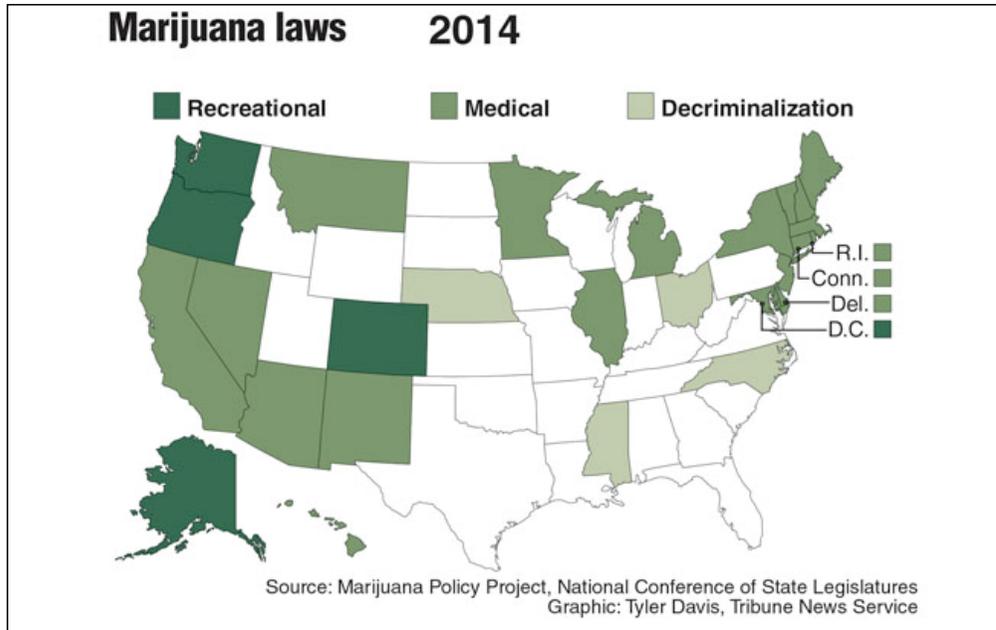
It does not include post-traumatic stress disorder (PTSD), chronic pain or other common ailments that are covered under other states’ medical marijuana laws. The Illinois law includes a process allowing people to petition to add new ailments to the list. Patients can get 2.5 ounces of marijuana every two weeks, or more with a special waiver.

The marijuana cultivation centers will be high-tech industrial indoor agricultural facilities, typically covering 20 acres or more, with complicated ventilation, lighting and watering systems. The law requires security to be tight, with video surveillance, ID cards for entry and “perimeter intrusion detection systems.”

The dispensaries will essentially be retail outlets, likely located in storefronts in commercial areas. However no walk-in buyers will be allowed; patients must be registered with one specific dispensary.

The Illinois Department of Financial and Professional Regulation will regulate dispensaries and the Illinois Department of Agriculture will regulate cultivation centers, while the state Department of Public Health handles patient registration.

The departments are all part of the state's Medical Cannabis Pilot Program, a new entity within the state government which brings together employees of the public health, agriculture and finance and professional regulation departments along with 40 new employees, said Melaney Arnold, a health department spokesperson who is also spokesperson for the pilot program.



Illinois: A bad trip?

Some applicants are wary of doing business in Chicago and Illinois, which has a rich history of doling out sweetheart government contracts, ranging from driving trucks, cleaning city buildings or construction work, to vendors and suppliers with political connections.

For years, Dick Simpson and colleagues at the University of Illinois at Chicago have produced regular reports outlining years of Chicago and suburban corruption and suspect business practices.

Simpson said this is a valid concern in the medical marijuana process.

"It's always a problem with contracts that are very profitable," said Simpson, a political science professor and former Chicago alderman. "It's even more tempting when it's something at the margins of legality – for instance Al Capone in the Prohibition era, or gambling or [horse] racing. Every time gambling has been brought to the state it's been a concern, and medical marijuana has the same potential...[With fears] that it would end up on the street or be very lucrative and bribes would be paid to get the (licenses)."

Still, Linn and other lawyers and policy experts say they expect a rigorous and fair process.

"The officials in the state who are making these decisions realize there are many, many eyes on them," said Brendan Shiller, an attorney representing several applicants. "If it's not very clear, very obvious that the best applicants got chosen, then there will be all sorts of problems they don't want to deal with."

State lawmakers recognized that influence peddling would be a concern so dispensaries and cultivation centers or political action committees formed by them are prohibited from making political donations.

Dispensary and cultivation center applications will be reviewed by committees of about a dozen people, each from the finance and agriculture departments, according to the state.

Committee members have "policy, program and legal expertise, as well as horticulture expertise for cultivation center panelists," Arnold said.

The selection committees will review applications with names and identifying information redacted. However, some question whether redaction could be done imperfectly, intentionally or not, and whether letters of support or other supplementary materials will reveal applicants' identities.

Security plans account for 20 percent of the decision in both categories. The cultivation plan counts for 30 percent for centers, with other categories including business plan and "suitability."

“Bonus points” are awarded for women and minority-owned businesses and for plans to give back to the community, for example with educational outreach, donations to HIV services or job training for veterans.

The applications are not public or subject to the Freedom of Information Act (FOIA), a provision lawyers and advocates say is necessary since they include personal information like tax returns and competitive business and security plans.

Arnold said officials are figuring out what if any documents from the decision-making process will be subject to FOIA.

While the Quinn Administration is on board with keeping applicants’ names confidential, Governor-elect Bruce Rauner is not.

“The application process for medical marijuana should not be held in secret where insiders win and taxpayers lose; it should be open and transparent,” Rauner said in a campaign press release. Rauner also called for passage of a new law making changes to the application process. <http://bruceragner.com/rauner-calls-on-quinn-to-halt-secret-medical-marijuana-licensing/>

Lawyers argue their clients involved in other industry sectors fear reputational harm if it’s known they are interested in medical marijuana.

Proposals for dispensaries and cultivation centers have also drawn opposition in communities where they are proposed, with some neighbors associating them with crime or debauchery, a connotation many business leaders want to avoid.

When licenses are awarded it is likely the recipients’ identities will all become public, but there is no point in revealing the identities of people who never get licenses, attorneys argue.

“It’s typical to see a business or investment fail, that’s nothing new,” said attorney Vallerius. “But it’s different when you go to church and everybody keeps staring at you because they heard you grow and smoke drugs.”

So far, the identities of some dispensary and cultivation center applicants has become public primarily through filings for the special use permits required from municipalities, which can be obtained before or after a state license is issued.

In Chicago, City Council decides on the special use permit. This summer City Council passed legislation allowing dispensaries in business and commercial districts as long as they are 1,000 feet from schools and not in residential areas.

Walter Burnett Jr. is alderman of the 27th ward where both GTI and Manderia want to open dispensaries. Burnett told DNAInfo that he fears “yuppie wards” will get all the dispensaries. (Burnett did not respond to requests for comment.)

<http://www.dnainfo.com/chicago/20141023/near-west-side/if-yuppie-wards-get-medical-marijuana-so-should-near-west-side-ald>
(<http://www.dnainfo.com/chicago/20141023/near-west-side/if-yuppie-wards-get-medical-marijuana-so-should-near-west-side-ald>)

The dispensary licenses will be awarded in “townships” geographically spread across the city. The South Township drew no applications, while the West Township had 10.

Rules, regs abound

The awarding of licenses is only the start of a raft of new responsibilities for a stressed state government.

The state needs to select labs to test the marijuana being produced, and carry out strict oversight of the cultivation and dispensing processes. Licenses are renewed annually, after reviews by the state.

Operators are required to carefully log and account for all the marijuana produced. It must be packaged at cultivation centers and sold by dispensaries unopened – no jars of loose product to sample or bundle on-site.

Unsold marijuana must be destroyed and transported to landfills in a regulated process, with state police notified.

The law includes provisions meant to prevent monopolies and keep prices fair. One party can have an interest in only three cultivation centers and five dispensaries statewide.

And cultivation centers must offer the same prices to all dispensaries. But some are concerned patients and independent businesspeople will still be taken advantage of by big conglomerates.

“If everybody who has a cultivation center has a dispensary or vice versa, there’s not going to be a whole lot of competition,” said Shiller. “People will just sell to themselves – that may be problematic.”

Tammy Jacobi owns Good Intentions LLC, a clinic in West Town that advises patients on how to register for the program and connects them

with doctors.

Jacobi said she sees much potential for market manipulation under the rules. She thinks cultivation centers will find a way to offer favorable prices to dispensaries they also own, perhaps by selling different types of products to different dispensaries. And she fears dispensaries could band together to agree on prices higher than patients should have to pay.

She points to a law proposed in Michigan that could allow medical marijuana sales to Illinois patients, potentially competing with Illinois dispensaries.

Meanwhile experts note that if Illinois dispensary prices are higher than street prices, many consumers will still go the illegal route.

Lang said that any such problems will become apparent as the pilot program plays out, and can be addressed in a new law.

"I actually think these guys will not make as much money as they think they will, certainly not now. When we refine this, when the model program sunsets and we make a new law, there may be better opportunities for businesses and better prices for patients.

"We'll have a better grip on what it means and how to make it work for really sick people and how to enhance the revenue for the state of Illinois," Lang said.

Kari Lydersen is a Chicago-based author and freelance writer who regularly reports on government for the Better Government Association and other media outlets.

Medical marijuana a budding industry in central Illinois

Springfield could soon have one or more businesses selling pot downtown.

But don't get out your wallet just yet. The businesses would be tightly controlled "dispensaries" of medical marijuana, and potential users must jump through several legal hoops to partake.

Applications to grow, dispense and use marijuana in Illinois' Medical Cannabis Pilot Program are pending with the state, and the first legal medical pot could surface in Illinois by spring 2015. Across Illinois, companies are vying for the coveted permits required to run grow operations and storefronts, selling a plant that is still technically illegal.

Todd Greenberg, corporation counsel for the City of Springfield, says three dispensary applicants asked the city to okay their plans to locate here. While the state makes the final determination on which applicants will receive permits, the companies must receive letters of approval from the municipality in which they want to operate. Dispensaries can't be located in residential areas, with a setback requirement of 1,000 feet from schools and day cares.

"Because dispensaries have to be away from schools and day cares, there are only a very few places in the city where they could be," Greenberg said. "One is downtown, and the rest are in industrial areas."

Greenberg says the city provided each of the three applicants a letter attesting that their proposed locations downtown would not violate any existing zoning rules. The letters became part of the application packets that each company submitted to the state for final approval.

State law allows 60 dispensaries across Illinois, divided between 48 districts. Melaney Arnold, spokeswoman for the Illinois Medical Cannabis Pilot Project, says the 48 dispensary districts mostly coincide with the 20 Illinois State Police districts downstate, but the heavily populated Chicago area is broken down into smaller dispensary districts. Arnold says the state received no dispensary applications for two districts, but that doesn't mean the remaining districts will receive extra dispensaries.

Sangamon County is in ISP District 9, which also includes Logan, Menard, Morgan, Mason, Cass and Christian counties. That means the seven counties will share two dispensaries once those permits are awarded. Additionally, the seven counties in District 9 will share one cultivation center. In total, eight applications for cultivation centers have been filed with the state for District 9, along with four dispensary applications.

Norm Sims, director of the Springfield-Sangamon County Regional Planning Commission, says a handful of companies examined opening a cultivation center in Sangamon County. He says a combination of late rulemaking at the state level and a lack of appropriately sized vacant buildings in the county made it unlikely for cultivation centers to locate in Sangamon County.

"Time works against these guys, and they're not going to spend a bunch of money to get set up when they're still waiting for approval," he said. "If they're building, they're looking at spring before they even become operational."

Additionally, both the City of Springfield and Sangamon County had to stretch the definitions of their zoning designations to fit marijuana facilities.

“The legislature spent a lot of time understanding medical marijuana,” Sims said. “What they don’t understand is zoning, because it’s not something they do every day. That’s local.”

Applications for cultivation centers are pending in other counties within ISP District 9. Chicago-based Cresco Labs wants to open a grow operation in Logan County, about a mile north of Lincoln next to Interstate 55. Springfield lobbyist Mark Strawn hopes to run a similar operation in Christian County, near Kincaid. Two other companies also want to set up in Christian County. Morgan County, which includes Jacksonville, has been courted by four separate applicants, while another applicant is interested in Cass County. Only one of the companies will be selected under the current regulations, however. Officials in Menard and Mason counties say they haven’t heard of any companies looking to set up in their jurisdictions.

Paul Schmitz, Christian County Board chairman, acknowledged that legitimizing an often villainized plant will be a culture change. However, he said his board mostly accepted the idea of locating a marijuana facility within their county.

“There were maybe two or three ‘nays,’ out of 16 of us,” he said. “I wouldn’t be a supporter of legalizing marijuana at this point, but if I have someone in my family who needs relief, I would much rather see that person be able to live a life that’s halfway decent as opposed to being wracked with pain.”

Melaney Arnold, the state’s medical marijuana spokeswoman, says about 8,000 people began the application process to use medical marijuana, but only about 1,500 have completed some or all of the three-part application. Arnold says 230 people statewide have been approved so far, but there is no deadline to apply.

For more information on the pilot program, visit www2.illinois.gov (<http://www.illinois.gov/Pages/default.aspx>). To apply as a patient for medical marijuana, visit medicalcannabispatients.illinois.gov (<https://medicalcannabispatients.illinois.gov/>).

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