

Mitchel Chargo Explores the Impact of Out-of-State Entrants in Minnesota's Craft Cannabis Industry via Benzinga

In The News | 2 min read

Aug 26, 2024

Hinshaw Minneapolis partner Mitchel Chargo recently shared his insights with *Benzinga* on the emerging craft cannabis industry in Minnesota. He explained that although the state legislature intended to promote a Minnesota-focused industry, the lack of a residency requirement for applicants has caused “approximately half of the pre-approval license applications coming from out-of-state social equity applicants,” according to data from the Office of Cannabis Management (OCM). The OCM received over 1,800 pre-applications, with only 44 percent from Minnesota residents.

Chargo said, “The influx of non-residents increases the number of lottery participants, thereby reducing the odds of Minnesota residents winning a pre-approval in the initial lottery,” adding that it also makes it more challenging for local entrepreneurs to find suitable commercial real estate after the lottery.

He pointed out social equity applicants’ challenges, such as difficulties accessing capital and finding suitable commercial real estate for use and operations in the cannabis industry. These difficulties are exacerbated by laws meant to protect these applicants, such as requiring social equity members to maintain 65 percent ownership. While these rules are well-meaning, he said they might make it more challenging to raise funds, “Investors may want more financial control and influence over decision-making than a strict 65%/35% ownership split allows.”

Chargo advised those preparing for the licensing process to take a proactive approach by “investing in developing business plans, operational plans, security plans, environmental plans, employee training and education plans.”

Additionally, Chargo warned out-of-state entities seeking to enter Minnesota’s market to closely monitor legislation regarding “true parties in interest,” as this could limit certain partnerships and require full disclosure of ownership interests to the OCM.

He also highlighted the unique position of tribal-owned businesses in the local cannabis market. “Native-American cannabis enterprises benefit from sovereign immunity and are uniquely positioned to operate on

tribally regulated land without state government oversight,” he said, emphasizing the potential for these groups to bolster Minnesota’s cannabis supply early on.

According to Chargo, Minnesota’s unique industry, shaped by a ban on vertical integration, limits the influence of multi-state operators (MSOs) and fosters a more localized industry.

- “EXCLUSIVE: Can Minnesota Keep Its Cannabis Industry Local Amid Out-Of-State Pressure? Legal Expert Weighs In” was published by *Benzinga* on August 24, 2024.

Hinshaw & Culbertson LLP is a U.S.-based law firm with offices nationwide. The firm’s national reputation spans the insurance industry, the financial services sector, professional services, and other highly regulated industries. Hinshaw provides holistic legal solutions—from litigation and dispute resolution, and business advisory and transactional services, to regulatory compliance—for clients of all sizes. Visit www.hinshawlaw.com for more information and follow @Hinshaw on LinkedIn and X.

Related People



Mitchel C. Chargo

Partner

📞 612-334-2715

Related Capabilities

Real Estate Transactions & Lending

Related Locations

Minneapolis