

Pot producer pins growth on loophole

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New Mexico's largest medical cannabis company is growing even larger as the recreational market draws near, with help from a little-known provision in state guidance.

Sale of recreational cannabis, approved by lawmakers and Gov. Michelle Lujan Grisham earlier this year, is scheduled to begin no later than April 2022, although some regulations are still being worked out at the state level.

Meanwhile, New Mexico's medical cannabis industry is bracing for what's expected to be a major increase in consumer demand. While some producers are taking a cautious approach, Ultra Health is embarking on a \$20 million expansion to maintain its status as the state's largest cannabis operation, citing guidance from state officials that companies may purchase multiple producer licenses to cover a single facility.

In the past six months, Ultra Health has purchased or leased space for 12 new dispensaries to serve medical patients and recreational customers, with at least eight others in the works, according to company President and CEO Duke Rodriguez. Rodriguez said he expects to have 45 total dispensaries serving medical patients and recreational customers by the time recreational sales begin. Additionally, Rodriguez said, the company has recently acquired or is acquiring four buildings, totaling nearly 350,000 square feet, to help the company meet its cultivation, transportation and staffing needs. The firm is hoping to have 3,000 employees, ranging from growers to human resources staffers, on board by next summer.

Rodriguez said the expansion is necessary to solidify Ultra Health's position as the largest cannabis producer in New Mexico and to send a message to potential competitors that they're going to need to invest in production capacity to keep pace.

"Cannabis is a capital-intensive industry," he said.

No limit on licenses

Ultra Health's aggressive expansion hinges in part on a little-publicized detail: There's no limit, other than cost, on the number of producer licenses Ultra Health and other companies can acquire.

The Cannabis Regulation Act requires that rules be in place to allow New Mexico's first recreational sales to begin no later than April 1, 2022, although Rodriguez and other industry insiders believe they may begin as soon as the start of next year.

The state's Cannabis Control Division has been tasked with devising rules guiding the new recreational industry, from how much cannabis can be grown under a single license to how much those licenses will cost. The plant count has been hotly debated by lawmakers and industry advocates. But there was little discussion on how many licenses a single entity can hold. The CCD's proposed rules are subject to a public hearing scheduled for June 29.

The law doesn't allow the division to place any restrictions on the number of producer licenses occupying a single space, except for specifically designed microbusinesses that have production and license costs capped at lower rates.

Linda Trujillo, superintendent of the New Mexico Regulation and Licensing Department, which oversees the CCD, confirmed in an email that the division may not limit the number of licensed premises a licensee may have, or the number of licensees that may operate on those premises.

"We are excited to work with existing producers and entrepreneurs to maximize this economic development opportunity," Trujillo said.

Because of that, Rodriguez said he's optimistic the company will be able to produce enough cannabis to meet its sales targets, whatever the plant count winds up being, although he said it may require registering as separate business entities to do so.

In Colorado, Oregon and other states that legalized cannabis for recreational use, recreational sales quickly surpassed sales through the medical programs. Therefore, Rodriguez said, it's imperative for Ultra Health to have sufficient production capacity in place to meet demand once sales begin.

"You may not always want to be first to the party, but you certainly don't want to be last," Rodriguez said.

Major scale-up

The company purchased 150 acres next to its existing 200-acre cannabis grow site in Tularosa and is adding a 35,000-square-foot greenhouse to its campus in Bernalillo.

Other purchases include a \$1.5 million, 35,000-square-foot space in Northeast Albuquerque that will function as an administrative office and processing center, and a 52,000-square-foot former Smith's Food and Drug store in Socorro that will be a distribution and inventory hub for the company.

Rodriguez added that the company is hoping to close on its largest new facility, a 225,000-square-foot manufacturing center in Alamogordo, later this summer.

"I hope by us being able to provide one of these facilities for other cultivators, producers and manufacturers, that we'll be able to leverage it for the benefit of the cannabis industry," Rodriguez said.

Despite the increased production capacity, Rodriguez said he expects that roughly half the cannabis sold by Ultra Health will have to be grown by other companies to meet its projected demand. He said he's hopeful the company can partner with smaller growers, including micro-license holders, to meet the demand.

Other growers cautious

Other New Mexico cannabis producers are growing as well, but taking a more measured approach. Indy White, director of sales for PurLife Dispensary, said the company has signed a lease for about 3,500 square feet at Montgomery and Louisiana NE, in the former home of Shelton Jewelers. The company is also looking for space in Clovis and Hobbs, White said.

But White said he's leery about doing too much too fast, saying that a rapid expansion could make it challenging to grow high-quality cannabis.

"If we were to expand too quickly, I think it would diminish our brand," White said.

Likewise, Wylie Atherton, head grower at Seven Point Farms, said his company is focused on quality rather than quantity.

The company has identified a space in Albuquerque that could house the company's third dispensary. However, Atherton said, the company isn't trying to dramatically increase its customer traffic.

"We're just doing something different, and I think that resonates with our patients," he said.