

Second Regular Session
Seventieth General Assembly
STATE OF COLORADO

ENGROSSED

*This Version Includes All Amendments Adopted
on Second Reading in the House of Introduction*

LLS NO. 16-0457.01 Michael Dohr x4347

SENATE BILL 16-040

SENATE SPONSORSHIP

Holbert,

HOUSE SPONSORSHIP

Pabon,

Senate Committees

Business, Labor, & Technology
Appropriations

House Committees

A BILL FOR AN ACT

101 **CONCERNING CHANGES TO THE REQUIREMENTS FOR OWNERS OF A**
102 **LICENSED MARIJUANA BUSINESS, AND, IN CONNECTION**
103 **THEREWITH, MAKING AN APPROPRIATION.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://www.leg.state.co.us/billsummaries>.)

The bill includes in the definition of "owner", in the medical and retail marijuana codes, a recipient of a commercially reasonable royalty associated with the use by a licensee of intellectual property and a licensed employee who receives a share of the profits from an employee benefit plan. The state licensing authority has the authority to promulgate

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.

SENATE
Amended 2nd Reading
April 20, 2016

rules on the parameters of a commercially reasonable royalty.

Under current law, an owner of a medical or retail marijuana business must have been a Colorado resident for at least 2 years prior to applying for licensure. The bill allows an owner to be either a 2-year resident of Colorado or a United States citizen on the date of the application for applications submitted on or after January 1, 2017, and prohibits an owner from being a publicly traded company. The bill requires a controlling interest of the licensees, as determined by the operating agreement, to be Colorado residents and maintain that residency while licensees.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1.** In Colorado Revised Statutes, 12-43.3-104, **amend**
3 **(1); repeal (12.3); and add (1.3), (1.7), and (14.3) as follows:**

4 **12-43.3-104. Definitions.** As used in this article, unless the
5 **context otherwise requires:**

6 **(1) "Good cause", for purposes of refusing or denying a license**
7 **renewal, reinstatement, or initial license issuance, means: "DIRECT**
8 **BENEFICIAL INTEREST OWNER" MEANS A PERSON OR CLOSELY HELD**
9 **BUSINESS ENTITY THAT OWNS A SHARE OR SHARES OF STOCK IN A**
10 **LICENSED MEDICAL MARIJUANA BUSINESS, INCLUDING THE OFFICERS,**
11 **DIRECTORS, MANAGING MEMBERS, OR PARTNERS OF THE LICENSED**
12 **MEDICAL MARIJUANA BUSINESS OR CLOSELY HELD BUSINESS ENTITY, OR**
13 **A QUALIFIED LIMITED PASSIVE INVESTOR.**

14 **(a) The licensee or applicant has violated, does not meet, or has**
15 **failed to comply with any of the terms, conditions, or provisions of this**
16 **article, any rules promulgated pursuant to this article, or any supplemental**
17 **local law, rules, or regulations;**

18 **(b) The licensee or applicant has failed to comply with any special**
19 **terms or conditions that were placed on its license pursuant to an order of**
20 **the state or local licensing authority;**

1 ~~(c) The licensed premises have been operated in a manner that~~
2 ~~adversely affects the public health or welfare or the safety of the~~
3 ~~immediate neighborhood in which the establishment is located.~~

4 ~~(1.3) "GOOD CAUSE", FOR PURPOSES OF REFUSING OR DENYING A~~
5 ~~LICENSE RENEWAL, REINSTATEMENT, OR INITIAL LICENSE ISSUANCE,~~
6 ~~MEANS:~~

7 ~~(a) THE LICENSEE OR APPLICANT HAS VIOLATED, DOES NOT MEET,~~
8 ~~OR HAS FAILED TO COMPLY WITH ANY OF THE TERMS, CONDITIONS, OR~~
9 ~~PROVISIONS OF THIS ARTICLE; ANY RULES PROMULGATED PURSUANT TO~~
10 ~~THIS ARTICLE; OR ANY SUPPLEMENTAL LOCAL LAW, RULES, OR~~
11 ~~REGULATIONS;~~

12 ~~(b) THE LICENSEE OR APPLICANT HAS FAILED TO COMPLY WITH ANY~~
13 ~~SPECIAL TERMS OR CONDITIONS THAT WERE PLACED ON ITS LICENSE~~
14 ~~PURSUANT TO AN ORDER OF THE STATE OR LOCAL LICENSING AUTHORITY;~~

15 ~~(c) THE LICENSED PREMISES HAVE BEEN OPERATED IN A MANNER~~
16 ~~THAT ADVERSELY AFFECTS THE PUBLIC HEALTH OR WELFARE OR THE~~
17 ~~SAFETY OF THE IMMEDIATE NEIGHBORHOOD IN WHICH THE~~
18 ~~ESTABLISHMENT IS LOCATED.~~

19 ~~(1.7) "INDIRECT BENEFICIAL INTEREST OWNER" MEANS A HOLDER~~
20 ~~OF A PERMITTED ECONOMIC INTEREST, A RECIPIENT OF A COMMERCIALY~~
21 ~~REASONABLE ROYALTY ASSOCIATED WITH THE USE OF INTELLECTUAL~~
22 ~~PROPERTY BY A LICENSEE, A LICENSED EMPLOYEE WHO RECEIVES A SHARE~~
23 ~~OF THE PROFITS FROM AN EMPLOYEE BENEFIT PLAN, A QUALIFIED~~
24 ~~INSTITUTIONAL INVESTOR, OR ANOTHER SIMILARLY SITUATED PERSON OR~~
25 ~~ENTITY AS DETERMINED BY THE STATE LICENSING AUTHORITY.~~

26 ~~(12.3) "Owner" means any person having a beneficial interest, as~~
27 ~~defined by the state licensing authority, in a medical marijuana business~~

1 other than a holder of a permitted economic interest.

2 (14.3) "QUALIFIED LIMITED PASSIVE INVESTOR" MEANS A NATURAL
3 PERSON WHO IS A UNITED STATES CITIZEN AND IS A PASSIVE INVESTOR
4 WHO OWNS LESS THAN A FIVE PERCENT SHARE OR SHARES OF STOCK IN A
5 LICENSED MEDICAL MARIJUANA BUSINESS.

6 **SECTION 2.** In Colorado Revised Statutes, 12-43.3-202, **amend**
7 **(2) (a) (XIX) and (2) (a) (XX); and add (2) (a) (XXI) as follows:**

8 **12-43.3-202. Powers and duties of state licensing authority -**
9 **rules.** (2) (a) Rules promulgated pursuant to paragraph (b) of subsection
10 (1) of this section may include, but need not be limited to, the following
11 subjects:

12 (XIX) Authorization for the department of revenue to issue
13 administrative citations and procedures for issuing, appealing, and
14 creating a citation violation list and schedule of penalties; and

15 (XX) Such other matters as are necessary for the fair, impartial,
16 stringent, and comprehensive administration of this article; AND

17 (XXI) THE PARAMETERS AND QUALIFICATIONS OF AN INDIRECT
18 BENEFICIAL INTEREST OWNER AND A QUALIFIED LIMITED PASSIVE
19 INVESTOR.

20 **SECTION 3.** In Colorado Revised Statutes, 12-43.3-307, **amend**
21 **(1) (a); repeal (1) (m); and add (1) (n) as follows:**

22 **12-43.3-307. Persons prohibited as licensees.** (1) A license
23 provided by this article shall not be issued to or held by:

24 (a) A person until the annual fee therefore has been paid;

25 (m) An owner, as defined by rule of the state licensing authority,
26 who has not been a resident of Colorado for at least two years prior to the
27 date of the owner's application.

1 (n) A PUBLICLY TRADED COMPANY.

2 SECTION 4. In Colorado Revised Statutes, add 12-43.3-307.5
3 as follows:

4 12-43.3-307.5. Business and owner requirements - legislative
5 declaration - definitions. (1) (a) THE GENERAL ASSEMBLY HEREBY FINDS
6 AND DECLARES THAT:

7 (I) MEDICAL MARIJUANA BUSINESSES NEED TO BE ABLE TO ACCESS
8 CAPITAL IN ORDER TO EFFECTIVELY GROW THEIR BUSINESSES AND REMAIN
9 COMPETITIVE IN THE MARKETPLACE;

10 (II) THE CURRENT REGULATORY STRUCTURE FOR MEDICAL
11 MARIJUANA CREATES A SUBSTANTIAL BARRIER TO INVESTMENT FROM
12 OUT-OF-STATE INTERESTS;

13 (III) THERE IS INSUFFICIENT CAPITAL IN THE STATE TO PROPERLY
14 FUND THE CAPITAL NEEDS OF COLORADO MEDICAL MARIJUANA
15 BUSINESSES;

16 (IV) COLORADO MEDICAL MARIJUANA BUSINESSES NEED TO HAVE
17 READY ACCESS TO CAPITAL FROM INVESTORS IN STATES OUTSIDE OF
18 COLORADO; AND

19 (V) PROVIDING ACCESS TO LEGITIMATE SOURCES OF CAPITAL
20 HELPS PREVENT THE OPPORTUNITY FOR THOSE WHO ENGAGE IN ILLEGAL
21 ACTIVITY TO GAIN ENTRY INTO THE STATE'S REGULATED MEDICAL
22 MARIJUANA MARKET.

23 (b) THEREFORE, THE GENERAL ASSEMBLY IS PROVIDING A
24 MECHANISM FOR COLORADO MEDICAL MARIJUANA BUSINESSES TO ACCESS
25 CAPITAL FROM INVESTORS IN OTHER STATES.

26 (2) A DIRECT BENEFICIAL INTEREST OWNER WHO IS A NATURAL
27 PERSON MUST EITHER:

1 (a) HAVE BEEN A RESIDENT OF COLORADO FOR AT LEAST ONE YEAR
2 PRIOR TO THE DATE OF THE APPLICATION; OR

3 (b) BE A UNITED STATES CITIZEN PRIOR TO THE DATE OF THE
4 APPLICATION.

5 (3) (a) A MEDICAL MARIJUANA BUSINESS MAY BE COMPRISED OF
6 AN UNLIMITED NUMBER OF DIRECT BENEFICIAL INTEREST OWNERS THAT
7 HAVE BEEN RESIDENTS OF COLORADO FOR AT LEAST ONE YEAR PRIOR TO
8 THE DATE OF THE APPLICATION.

9 (b) ON AND AFTER JANUARY 1, 2017, A MEDICAL MARIJUANA
10 BUSINESS THAT IS COMPRISED OF ONE OR MORE DIRECT BENEFICIAL
11 INTEREST OWNERS WHO HAVE NOT BEEN COLORADO RESIDENTS FOR AT
12 LEAST ONE YEAR PRIOR TO APPLICATION SHALL HAVE AT LEAST ONE
13 OFFICER WHO HAS BEEN A COLORADO RESIDENT FOR AT LEAST ONE YEAR
14 PRIOR TO APPLICATION AND ALL OFFICERS WITH DAY-TO-DAY
15 OPERATIONAL CONTROL OVER THE BUSINESS MUST BE COLORADO
16 RESIDENTS FOR AT LEAST ONE YEAR PRIOR TO APPLICATION. A MEDICAL
17 MARIJUANA BUSINESS UNDER THIS PARAGRAPH (b) IS LIMITED TO NO MORE
18 THAN FIFTEEN DIRECT BENEFICIAL INTEREST OWNERS, INCLUDING ALL
19 PARENT AND SUBSIDIARY ENTITIES, ALL OF WHOM ARE NATURAL PERSONS.

20 (c) NOTWITHSTANDING THE REQUIREMENTS OF PARAGRAPH (b) OF
21 THIS SUBSECTION (3), THE STATE LICENSING AUTHORITY MAY REVIEW THE
22 LIMITATION ON THE NUMBER OF DIRECT BENEFICIAL INTEREST OWNERS
23 AND MAY INCREASE THE NUMBER OF ALLOWABLE INTERESTS ABOVE
24 FIFTEEN BASED ON REASONABLE CONSIDERATIONS SUCH AS
25 DEVELOPMENTS IN STATE AND FEDERAL FINANCIAL REGULATIONS,
26 MARKET CONDITIONS, AND THE LICENSEE'S ABILITY TO ACCESS
27 LEGITIMATE SOURCES OF CAPITAL.

1 (d) A DIRECT BENEFICIAL INTEREST OWNER THAT IS A CLOSELY
2 HELD BUSINESS ENTITY MUST CONSIST ENTIRELY OF NATURAL PERSONS
3 WHO ARE UNITED STATES CITIZENS PRIOR TO THE DATE OF THE
4 APPLICATION, INCLUDING ALL PARENT AND SUBSIDIARY ENTITIES.

5 (4) A MEDICAL MARIJUANA BUSINESS MAY INCLUDE QUALIFIED
6 INSTITUTIONAL INVESTORS THAT OWN THIRTY PERCENT OR LESS OF THE
7 MEDICAL MARIJUANA BUSINESS.

8 (5)(a) A PERSON WHO INTENDS TO APPLY AS A DIRECT BENEFICIAL
9 INTEREST OWNER AND IS NOT A COLORADO RESIDENT FOR AT LEAST ONE
10 YEAR PRIOR TO THE DATE OF APPLICATION SHALL FIRST SUBMIT A REQUEST
11 TO THE STATE LICENSING AUTHORITY FOR A FINDING OF SUITABILITY AS A
12 DIRECT BENEFICIAL INTEREST OWNER. THE PERSON SHALL RECEIVE A
13 FINDING OF SUITABILITY PRIOR TO SUBMITTING AN APPLICATION TO THE
14 STATE LICENSING AUTHORITY TO BE A DIRECT BENEFICIAL INTEREST
15 OWNER. FAILURE TO RECEIVE A FINDING OF SUITABILITY PRIOR TO
16 APPLICATION IS GROUNDS FOR DENIAL BY THE STATE LICENSING
17 AUTHORITY.

18 (b) THE STATE LICENSING AUTHORITY SHALL PERFORM A LIMITED
19 INITIAL BACKGROUND CHECK ON QUALIFIED LIMITED PASSIVE INVESTORS.
20 IF THE INITIAL BACKGROUND CHECK PROVIDES REASONABLE CAUSE FOR
21 ADDITIONAL INVESTIGATION, THE STATE LICENSING AUTHORITY MAY
22 REQUIRE A FULL BACKGROUND CHECK.

23 (6) THE STATE LICENSING AUTHORITY SHALL REVIEW THE MEDICAL
24 MARIJUANA BUSINESS'S OPERATING DOCUMENTS TO ENSURE COMPLIANCE
25 WITH THIS SECTION.

26 (7) FOR PURPOSES OF THIS SECTION, UNLESS THE CONTEXT
27 OTHERWISE REQUIRES, "INSTITUTIONAL INVESTOR" MEANS:

1 (a) A BANK AS DEFINED IN SECTION 3(a)(6) OF THE FEDERAL
2 "SECURITIES EXCHANGE ACT OF 1934", AS AMENDED;

3 (b) AN INSURANCE COMPANY AS DEFINED IN SECTION 2(a)(17) OF
4 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

5 (c) AN INVESTMENT COMPANY REGISTERED UNDER SECTION 8 OF
6 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

7 (d) AN INVESTMENT ADVISER REGISTERED UNDER SECTION 203 OF
8 THE FEDERAL "INVESTMENT ADVISERS ACT OF 1940", AS AMENDED;

9 (e) COLLECTIVE TRUST FUNDS AS DEFINED IN SECTION 3(c)(11) OF
10 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

11 (f) AN EMPLOYEE BENEFIT PLAN OR PENSION FUND THAT IS
12 SUBJECT TO THE FEDERAL "EMPLOYEE RETIREMENT INCOME SECURITY
13 ACT OF 1974", AS AMENDED, EXCLUDING AN EMPLOYEE BENEFIT PLAN OR
14 PENSION FUND SPONSORED BY A LICENSEE OR AN INTERMEDIARY OR
15 HOLDING COMPANY LICENSEE THAT DIRECTLY OR INDIRECTLY OWNS FIVE
16 PERCENT OR MORE OF A LICENSEE;

17 (g) A STATE OR FEDERAL GOVERNMENT PENSION PLAN;

18 (h) A GROUP COMPRISED ENTIRELY OF PERSONS SPECIFIED IN
19 SUBSECTIONS (a) TO (g) OF THIS SUBSECTION (7); OR

20 (i) ANY OTHER ENTITY IDENTIFIED THROUGH RULE BY THE STATE
21 LICENSING AUTHORITY.

22 **SECTION 5.** In Colorado Revised Statutes, 12-43.3-310, **amend**
23 (6) as follows:

24 **12-43.3-310. Licensing in general.** (6) All officers and managers
25 and employees of a medical marijuana center, optional premises
26 cultivation operation, or medical marijuana-infused products
27 manufacturer shall be residents of Colorado upon the date of their license

1 application. An owner shall meet the residency requirements in section
2 12-43.3-307 (1) (m). All licenses granted pursuant to this article shall be
3 valid for a period not to exceed two years after the date of issuance unless
4 revoked or suspended pursuant to this article or the rules promulgated
5 pursuant to this article.

6 **SECTION 6.** In Colorado Revised Statutes, 12-43.3-311, add
7 (1.5) as follows:

8 **12-43.3-311. License renewal. (1.5)** THE STATE LICENSING
9 AUTHORITY MAY REQUIRE AN ADDITIONAL FINGERPRINT REQUEST WHEN
10 THERE IS A DEMONSTRATED INVESTIGATIVE NEED.

11 **SECTION 7.** In Colorado Revised Statutes, 12-43.4-103, amend
12 (1); repeal (12); and add (1.5), (2.5), and (14.3) as follows:

13 **12-43.4-103. Definitions.** As used in this article, unless the
14 context otherwise requires:

15 (1) "Executive director" means the executive director of the
16 department of revenue "DIRECT BENEFICIAL INTEREST OWNER" MEANS A
17 PERSON OR CLOSELY HELD BUSINESS ENTITY THAT OWNS A SHARE OR
18 SHARES OF STOCK IN A LICENSED RETAIL MARIJUANA BUSINESS, INCLUDING
19 THE OFFICERS, DIRECTORS, MANAGING MEMBERS, OR PARTNERS OF THE
20 LICENSED RETAIL MARIJUANA BUSINESS OR CLOSELY HELD BUSINESS
21 ENTITY, OR A QUALIFIED LIMITED PASSIVE INVESTOR.

22 (1.5) "EXECUTIVE DIRECTOR" MEANS THE EXECUTIVE DIRECTOR OF
23 THE DEPARTMENT OF REVENUE.

24 (2.5) "INDIRECT BENEFICIAL INTEREST OWNER" MEANS A HOLDER
25 OF A PERMITTED ECONOMIC INTEREST, A RECIPIENT OF A COMMERCIALY
26 REASONABLE ROYALTY ASSOCIATED WITH THE USE OF INTELLECTUAL
27 PROPERTY BY A LICENSEE, A LICENSED EMPLOYEE WHO RECEIVES A SHARE

1 OF THE PROFITS FROM AN EMPLOYEE BENEFIT PLAN, A QUALIFIED
2 INSTITUTIONAL INVESTOR, OR ANOTHER SIMILARLY SITUATED PERSON OR
3 ENTITY AS DETERMINED BY THE STATE LICENSING AUTHORITY.

4 (12) "Owner" means any person having a beneficial interest, as
5 defined by the state licensing authority, in a retail marijuana
6 establishment other than a holder of a permitted economic interest.

7 (14.3) "QUALIFIED LIMITED PASSIVE INVESTOR" MEANS A NATURAL
8 PERSON WHO IS A UNITED STATES CITIZEN AND IS A PASSIVE INVESTOR
9 WHO OWNS LESS THAN A FIVE PERCENT SHARE OR SHARES OF STOCK IN A
10 LICENSED RETAIL MARIJUANA BUSINESS.

11 **SECTION 8.** In Colorado Revised Statutes, 12-43.4-202, amend
12 (3) (a) (XV) and (3) (a) (XVI); and add (3) (a) (XVII) as follows:

13 **12-43.4-202. Powers and duties of state licensing authority -**
14 **rules.** (3) (a) Rules promulgated pursuant to paragraph (b) of subsection
15 (2) of this section must include, but need not be limited to, the following
16 subjects:

17 (XV) Compliance with, enforcement of, or violation of any
18 provision of this article, section 18-18-406.3 (7), C.R.S., or any rule
19 issued pursuant to this article, including procedures and grounds for
20 denying, suspending, fining, restricting, or revoking a state license issued
21 pursuant to this article; and

22 (XVI) Establishing a schedule of penalties and procedures for
23 issuing and appealing citations for violation of statutes and rules and
24 issuing administrative citations; AND

25 (XVII) THE PARAMETERS AND QUALIFICATIONS OF AN INDIRECT
26 BENEFICIAL INTEREST OWNER AND A QUALIFIED LIMITED PASSIVE
27 INVESTOR.

1 **SECTION 9.** In Colorado Revised Statutes, 12-43.4-306, **amend**

2 **(1) (a); repeal (1) (k); and add (1) (l) as follows:**

3 **12-43.4-306. Persons prohibited as licensees - definitions.**

4 **(1) A license provided by this article shall not be issued to or held by:**

5 **(a) A person until the annual fee therefor has been paid;**

6 **(k) An owner who has not been a resident of Colorado for at least**
7 **two years prior to the date of the owner's application.**

8 **(l) A PUBLICLY TRADED COMPANY.**

9 **SECTION 10.** In Colorado Revised Statutes, **add** 12-43.4-306.5
10 **as follows:**

11 **12-43.4-306.5. Business and owner requirements - legislative**
12 **declaration - definitions.** (1) (a) **THE GENERAL ASSEMBLY HEREBY FINDS**

13 **AND DECLARES THAT:**

14 **(I) RETAIL MARIJUANA BUSINESSES NEED TO BE ABLE TO ACCESS**
15 **CAPITAL IN ORDER TO EFFECTIVELY GROW THEIR BUSINESSES AND REMAIN**
16 **COMPETITIVE IN THE MARKETPLACE;**

17 **(II) THE CURRENT REGULATORY STRUCTURE FOR RETAIL**
18 **MARIJUANA CREATES A SUBSTANTIAL BARRIER TO INVESTMENT FROM**
19 **OUT-OF-STATE INTERESTS;**

20 **(III) THERE IS INSUFFICIENT CAPITAL IN COLORADO TO PROPERLY**
21 **FUND THE CAPITAL NEEDS OF COLORADO RETAIL MARIJUANA BUSINESSES;**

22 **(IV) COLORADO RETAIL MARIJUANA BUSINESSES NEED TO HAVE**
23 **READY ACCESS TO CAPITAL FROM INVESTORS IN STATES OUTSIDE OF**
24 **COLORADO; AND**

25 **(V) PROVIDING ACCESS TO LEGITIMATE SOURCES OF CAPITAL**
26 **HELPS PREVENT THE OPPORTUNITY FOR THOSE WHO ENGAGE IN ILLEGAL**
27 **ACTIVITY TO GAIN ENTRY INTO COLORADO'S REGULATED RETAIL**

1 MARIJUANA MARKET.

2 (b) THEREFORE, THE GENERAL ASSEMBLY IS PROVIDING A
3 MECHANISM FOR COLORADO RETAIL MARIJUANA BUSINESSES TO ACCESS
4 CAPITAL FROM INVESTORS IN OTHER STATES.

5 (2) A DIRECT BENEFICIAL INTEREST OWNER WHO IS A NATURAL
6 PERSON MUST EITHER:

7 (a) HAVE BEEN A RESIDENT OF COLORADO FOR AT LEAST ONE YEAR
8 PRIOR TO THE DATE OF THE APPLICATION; OR

9 (b) BE A UNITED STATES CITIZEN PRIOR TO THE DATE OF THE
10 APPLICATION.

11 (3) (a) A RETAIL MARIJUANA BUSINESS MAY BE COMPRISED OF AN
12 UNLIMITED NUMBER OF DIRECT BENEFICIAL INTEREST OWNERS THAT HAVE
13 BEEN RESIDENTS OF COLORADO FOR AT LEAST ONE YEAR PRIOR TO THE
14 DATE OF THE APPLICATION.

15 (b) ON AND AFTER JANUARY 1, 2017, A RETAIL MARIJUANA
16 BUSINESS THAT IS COMPRISED OF ONE OR MORE DIRECT BENEFICIAL
17 INTEREST OWNERS WHO HAVE NOT BEEN COLORADO RESIDENTS FOR AT
18 LEAST ONE YEAR PRIOR TO APPLICATION SHALL HAVE AT LEAST ONE
19 OFFICER WHO HAS BEEN A COLORADO RESIDENT FOR AT LEAST ONE YEAR
20 PRIOR TO APPLICATION AND ALL OFFICERS WITH DAY-TO-DAY
21 OPERATIONAL CONTROL OVER THE BUSINESS MUST BE COLORADO
22 RESIDENTS FOR AT LEAST ONE YEAR PRIOR TO APPLICATION. A RETAIL
23 MARIJUANA BUSINESS UNDER THIS PARAGRAPH (b) IS LIMITED TO NO MORE
24 THAN FIFTEEN DIRECT BENEFICIAL INTEREST OWNERS, INCLUDING ALL
25 PARENT AND SUBSIDIARY ENTITIES, ALL OF WHOM ARE NATURAL PERSONS.

26 (c) NOTWITHSTANDING THE REQUIREMENTS OF PARAGRAPH (b) OF
27 THIS SUBSECTION (3), THE STATE LICENSING AUTHORITY MAY REVIEW THE

1 LIMITATION ON THE NUMBER OF DIRECT BENEFICIAL INTEREST OWNERS
2 AND MAY INCREASE THE NUMBER OF ALLOWABLE INTERESTS ABOVE
3 FIFTEEN BASED ON REASONABLE CONSIDERATIONS SUCH AS
4 DEVELOPMENTS IN STATE AND FEDERAL FINANCIAL REGULATIONS,
5 MARKET CONDITIONS, AND THE LICENSEE'S ABILITY TO ACCESS
6 LEGITIMATE SOURCES OF CAPITAL.

7 (d) A DIRECT BENEFICIAL INTEREST OWNER THAT IS A CLOSELY
8 HELD BUSINESS ENTITY MUST CONSIST ENTIRELY OF NATURAL PERSONS
9 WHO ARE UNITED STATES CITIZENS PRIOR TO THE DATE OF THE
10 APPLICATION, INCLUDING ALL PARENT AND SUBSIDIARY ENTITIES.

11 (4) A RETAIL MARIJUANA BUSINESS MAY INCLUDE QUALIFIED
12 INSTITUTIONAL INVESTORS THAT OWN THIRTY PERCENT OR LESS OF THE
13 RETAIL MARIJUANA BUSINESS.

14 (5) (a) A PERSON WHO INTENDS TO APPLY AS A DIRECT BENEFICIAL
15 INTEREST OWNER AND IS NOT A COLORADO RESIDENT FOR AT LEAST ONE
16 YEAR PRIOR TO THE DATE OF APPLICATION SHALL FIRST SUBMIT A REQUEST
17 TO THE STATE LICENSING AUTHORITY FOR A FINDING OF SUITABILITY AS A
18 DIRECT BENEFICIAL INTEREST OWNER. THE PERSON SHALL RECEIVE A
19 FINDING OF SUITABILITY PRIOR TO SUBMITTING AN APPLICATION TO THE
20 STATE LICENSING AUTHORITY TO BE A DIRECT BENEFICIAL INTEREST
21 OWNER. FAILURE TO RECEIVE A FINDING OF SUITABILITY PRIOR TO
22 APPLICATION IS GROUNDS FOR DENIAL BY THE STATE LICENSING
23 AUTHORITY.

24 (b) THE STATE LICENSING AUTHORITY SHALL PERFORM A LIMITED
25 INITIAL BACKGROUND CHECK ON QUALIFIED LIMITED PASSIVE INVESTORS.
26 IF THE INITIAL BACKGROUND CHECK PROVIDES REASONABLE CAUSE FOR
27 ADDITIONAL INVESTIGATION, THE STATE LICENSING AUTHORITY MAY

1 REQUIRE A FULL BACKGROUND CHECK.

2 (6) THE STATE LICENSING AUTHORITY SHALL REVIEW THE RETAIL
3 MARIJUANA BUSINESS'S OPERATING DOCUMENTS TO ENSURE COMPLIANCE
4 WITH THIS SECTION.

5 (7) FOR PURPOSES OF THIS SECTION, UNLESS THE CONTEXT
6 OTHERWISE REQUIRES, "INSTITUTIONAL INVESTOR" MEANS:

7 (a) A BANK AS DEFINED IN SECTION 3(a)(6) OF THE FEDERAL
8 "SECURITIES EXCHANGE ACT OF 1934", AS AMENDED;

9 (b) AN INSURANCE COMPANY AS DEFINED IN SECTION 2(a)(17) OF
10 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

11 (c) AN INVESTMENT COMPANY REGISTERED UNDER SECTION 8 OF
12 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

13 (d) AN INVESTMENT ADVISER REGISTERED UNDER SECTION 203 OF
14 THE FEDERAL "INVESTMENT ADVISERS ACT OF 1940", AS AMENDED;

15 (e) COLLECTIVE TRUST FUNDS AS DEFINED IN SECTION 3(c)(11) OF
16 THE FEDERAL "INVESTMENT COMPANY ACT OF 1940", AS AMENDED;

17 (f) AN EMPLOYEE BENEFIT PLAN OR PENSION FUND THAT IS
18 SUBJECT TO THE FEDERAL "EMPLOYEE RETIREMENT INCOME SECURITY
19 ACT OF 1974", AS AMENDED, EXCLUDING AN EMPLOYEE BENEFIT PLAN OR
20 PENSION FUND SPONSORED BY A LICENSEE OR AN INTERMEDIARY OR
21 HOLDING COMPANY LICENSEE THAT DIRECTLY OR INDIRECTLY OWNS FIVE
22 PERCENT OR MORE OF A LICENSEE;

23 (g) A STATE OR FEDERAL GOVERNMENT PENSION PLAN;

24 (h) A GROUP COMPRISED ENTIRELY OF PERSONS SPECIFIED IN
25 SUBSECTIONS (a) TO (g) OF THIS SUBSECTION (7); OR

26 (i) ANY OTHER ENTITY IDENTIFIED THROUGH RULE BY THE STATE
27 LICENSING AUTHORITY.

1 SECTION 11. In Colorado Revised Statutes, 12-43.4-309,
2 amend (5) as follows:

3 12-43.4-309. Licensing in general. (5) All officers, managers
4 and employees of a retail marijuana establishment shall be residents of
5 Colorado upon the date of their license application. An owner shall meet
6 the residency requirements in section 12-43.4-306 (1) (k). All licenses
7 granted pursuant to this article are valid for a period of one year after the
8 date of issuance unless revoked or suspended pursuant to this article or
9 the rules promulgated pursuant to this article.

10 SECTION 12. In Colorado Revised Statutes, 12-43.4-310, add
11 (1.5) as follows:

12 12-43.4-310. License renewal. (1.5) THE STATE LICENSING
13 AUTHORITY MAY REQUIRE AN ADDITIONAL FINGERPRINT REQUEST WHEN
14 THERE IS A DEMONSTRATED INVESTIGATIVE NEED.

15 SECTION 13. Appropriation. (1) For the 2016-17 state fiscal
16 year, \$1,186,237 is appropriated to the department of revenue. This
17 appropriation is from the marijuana cash fund created in section
18 12-43.3-501 (1) (a), C.R.S. To implement this act, the department may
19 use this appropriation as follows:

20 (a) \$1,108,777 for marijuana enforcement, which amount is based
21 on an assumption that the department will require an additional 12.0 FTE;

22 (b) \$71,258 for the purchase of legal services; and

23 (c) \$6,202 for the purchase of identification services from the
24 Colorado bureau of investigation.

25 (2) For the 2016-17 state fiscal year, \$71,258 is appropriated to
26 the department of law. This appropriation is from reappropriated funds
27 received from the department of revenue under paragraph (b) of

1 subsection (1) of this section and is based on an assumption that the
2 department of law will require an additional 0.4 FTE. To implement this
3 act, the department of law may use this appropriation to provide legal
4 services for the department of revenue.

5 (3) For the 2016-17 state fiscal year, \$6,202 is appropriated to the
6 department of public safety for use by the Colorado bureau of
7 investigation. This appropriation is from reappropriated funds received
8 from the department of revenue under paragraph (c) of subsection (1). To
9 implement this act, the bureau may use this appropriation for personal
10 services and operating expenses related to identification.

11 **SECTION 14. Applicability.** This act applies to applications
12 made on or after January 1, 2017.

13 **SECTION 15. Safety clause.** The general assembly hereby finds,
14 determines, and declares that this act is necessary for the immediate
15 preservation of the public peace, health, and safety.