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How state marijuana legalization became a boon for corruption

By making local officials the gatekeepers for million-dollar businesses, states created a breeding ground for bribery and favoritism.

By [MONA ZHANG](#)

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Jasiel Correia's star was rising.

The son of Cape Verdean immigrants in the working-class Massachusetts port city of Fall River — famed as the home of Lizzie Borden — Correia was a home-grown prodigy. At 23, he was elected mayor, fielding congratulatory calls from Sen. Elizabeth Warren and Rep. Joe Kennedy.

That was in 2015. Four years later, just a week before his reelection race, federal agents ignominiously led him away from his home in handcuffs and charged him with attempting to extort cannabis companies of \$600,000 in exchange for granting them lucrative licenses to sell weed in his impoverished city.

“Mayor Correia has engaged in an outrageous brazen campaign of corruption, which turned his job into a personal ATM,” declared U.S. Attorney Andrew Lelling during a press conference announcing the charges.

The downfall of Fall River's young mayor wasn't just a tragedy for the thousands of people who invested their hopes in him: It was emblematic of a rash of cannabis-related corruption across the nation, from Massachusetts to California to Arkansas and beyond.

In the past decade, 15 states have legalized a regulated marijuana market for adults over 21, and another 17 have legalized medical marijuana. But in their rush to limit the numbers of licensed vendors and give local municipalities control of where to locate dispensaries, they created something else: A market for local corruption.

Almost all the states that legalized pot either require the approval of local officials — as in Massachusetts — or impose a statewide limit on the number of licenses, chosen by a politically appointed oversight board, or both. These practices effectively put million-dollar decisions in the hands of relatively small-time political figures — the mayors and councilors of small towns and

cities, along with the friends and supporters of politicians who appoint them to boards. And these strictures have given rise to the exact type of corruption that got Correia in trouble with federal prosecutors. They have also created a culture in which would-be cannabis entrepreneurs feel obliged to make large campaign contributions or hire politically connected lobbyists.

For some entrepreneurs, the payments can seem worth the ticket to cannabis riches.

For some politicians, the lure of a bribe or favor can be irresistible.

Correia's indictment alleges that he extorted hundreds of thousands of dollars from marijuana companies in exchange for granting them the local approval letters that are necessary prerequisites for obtaining Massachusetts licenses. Correia and his co-conspirators — staffers and friends — accepted a variety of bribes including cash, more than a dozen pounds of marijuana and a “Batman” Rolex watch worth up to \$12,000, the indictment charges.

Cigar bars were his preferred meeting spot, where he rendezvoused with aspiring marijuana licensees to ascertain their willingness to pay bribes, prosecutors allege. When one marijuana vendor asked him why he demanded so much money for a letter in support of his business, Correia said he needed the money for legal fees. A year earlier, he had been indicted on charges of wire fraud and filing false tax returns in connection with his tech startup.

“All government contracting and licensing is subject to these kinds of forces,” said Douglas Berman, a law professor at Ohio State University who authors a [blog on marijuana policy](#). But “there are unique facets to government contracting in [the cannabis] space that makes it uniquely vulnerable to corruption.”

In Fall River, with its population of roughly 90,000, the cost of obtaining a letter of local approval from Correia's City Hall was anywhere from \$100,000 to \$250,000 in bribes, according to the indictment. One vendor even agreed to give 2 percent of his sales to a friend of Correia's who was helping to facilitate the bribes, according to court documents. This friend allegedly acted as a middleman to help conceal the mayor's involvement in the extortion scheme.

Genoveva Andrade, who served as Correia's chief of staff, [pleaded guilty to bribery and extortion charges](#) in December. Correia is scheduled [to go to trial in February](#), and five marijuana applicants are expected to testify for the prosecution.

“There's a lot of deal-making between businesses and localities that creates the environment of everyone working their way towards getting a piece of the action,” Berman said. Whether it's city or county officials that need to be appeased, local control is “just another opportunity for another set of hands to be outstretched.”

It's not just local officials. Allegations of corruption have reached the state level in numerous marijuana programs, especially ones in which a small group of commissioners is charged with dispensing limited numbers of licenses. Former Maryland state Del. Cheryl Glenn was sentenced

to two years in prison in July for taking bribes in exchange for introducing and voting on legislation to benefit medical marijuana companies. Missouri Gov. Mike Parson's administration is the [target of law enforcement and legislative probes into the rollout](#) of its medical marijuana program.

“The state is given full control in an industry where there is so much competition — where everyone realizes how valuable these licenses are,” said Lorenzo Nourafchan, CEO of Northstar Financial Consulting, which works with cannabis businesses.

Nourafchan cited some friends who submitted “incredible applications” for Missouri medical marijuana licenses only to see the licenses go to large, multistate operators: “It just seemed to me and many others that it was not fair ... people were not given objective and unbiased treatment.”

When advocates seek to legalize marijuana, whether through a ballot initiative or through the state legislature, there is typically a corresponding demand that local communities be given a say in whether a dispensary will be set up shop in their towns.

Inevitably, some localities would want to ban marijuana businesses as unsuitable to their tastes; others, however, may welcome them in hopes of reaping a tax windfall. When Massachusetts passed a recreational legalization initiative in 2016, the state gave wide latitude to local authorities. Not only are cannabis companies required to have a letter of support from municipalities to get a state license, they must also have a "host community agreement," which allows for a "community impact fee" of not more than 3 percent of gross sales of the cannabis business.

But the competition for licenses has been so intense that companies quickly found ways of going beyond the cap, offering more community givebacks in order to win their support. In this scramble for licenses, large, well-heeled firms were able to offer municipalities greater financial benefits compared to small, locally run businesses — the opposite of what the law intended.

For instance, the national pot powerhouse PharmaCann (“Improving people’s lives through cannabis”) offered the town of Wareham, on the Cape Cod Canal, [money for police details; paid an art conservation company to restore a painting](#); and put up money for a local oyster festival, among other sweeteners.

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These special benefits — particularly the police details — seemed to run afoul of the state's commitment to right past wrongs of marijuana enforcement, which was the thinking behind a requirement that cannabis businesses have a "[Positive Impact Plan](#)" in order to help areas that were disproportionately targeted by marijuana enforcement.

State regulators delayed the license renewal of PharmaCann last year in order to review its agreements with Wareham. A bill to increase oversight of these agreements stalled in committee last session, but state Sen. Julian Cyr, who represents Cape Cod, Nantucket and Martha's Vineyard, plans to reintroduce the legislation next year.

Local control is "the biggest mistake that we made," said Massachusetts Cannabis Control Commissioner Shaleen Title at a Boston University conference on marijuana law. Title is a longtime drug policy-reform advocate and serves in the Commission's social justice seat. As someone who helped draft Massachusetts's legalization law, Title said, she takes responsibility for those shortcomings.

"We should have spelled out a lot more how local control would work ... how the selection decisions would be made as to who can operate in a city or town," she said. A quick solution, she said, would be to tie municipal marijuana tax revenue to certain social equity goals like rewarding local businesses.

"Then, you get your share of tax revenue," Title said, referring to local governments. "I think that would completely solve that issue."

Massachusetts, however, isn't the only state that is plagued by issues of local control.

California led the way for the country's modern legalization movement when it legalized medical marijuana at the ballot box in 1996. The state's early medical marijuana program was largely unregulated — no testing requirements for contaminants, no seed-to-sale tracking software that are now common in regulated marijuana markets. The industry flourished, and many saw California's program as "de-facto legalization" amid the lax regulatory structure.

Those days are long gone. Oklahoma's medical marijuana market [is looking more like California's cannabis heyday](#) when small operators didn't have to contend with the exorbitant costs of compliance. California, on the other hand, is contending with the same forces that gave rise to Correia's alleged crimes in Massachusetts: local control.

Since California voters approved adult-use legalization in 2016, giving municipal governments near-total control of the approval process, many longtime medical marijuana and underground operators struggled to enter the industry. Aside from compliance costs, there's the matter of actually securing a license. Despite California's pot-friendly reputation, most of the state's municipalities have chosen to ban commercial cannabis businesses, fueling even greater competition among companies to enter the municipalities willing to host them.

In return, the localities have chosen to enact their own regulations on how to obtain cannabis licenses, empowering local politicians and government officials. That's given rise to a myriad of corruption cases, from bribes to local sheriffs to a Ukrainian-born man [indicted alongside two associates of presidential lawyer](#) Rudolph Giuliani, Lev Parnas and Igor Fruman, over campaign finance violations for plotting to funnel money to politicians in hopes of getting licenses in Nevada and New York.

In May, federal prosecutors charged two city officials in Calexico, near California's border with Mexico, with corruption, after the pair solicited bribes from an undercover FBI agent in exchange for fast-tracking a marijuana permit application, according to court documents. "This isn't our first rodeo," one of the officials told the agent, referencing how the pair had done similar work for others. The bribery scheme was carried out under the guise of a consulting firm, which was used to launder money, according to court documents. Both officials struck plea deals.

Just a month later, FBI agents [arrested Los Angeles City Council Member Jose Huizar](#) for corruption. The city is home to the largest legal marijuana market in the world, posting [more than \\$3 billion in sales last year](#).

While the federal corruption case focuses on allegations that Huizar was a central figure in a pay-to-play scheme for real estate developers, court documents in a separate suit allege that Huizar operated in a similar fashion with marijuana companies. A former staffer [filed a wrongful termination complaint](#), claiming he was fired after sharing details about Huizar extorting cannabis companies with federal officials.

According to court documents, Huizar conditioned local marijuana permits on "political donations, 'consulting fees' funneled to the Councilmember's friends, and cash payments made directly to Huizar."

Huizar pleaded not guilty to the bribery charges in December. He denied the allegations in the wrongful termination suit, and the case is poised to be dismissed after the parties reached a settlement.

In November, FBI agents raided a Compton, California, councilman's home and the offices of a Baldwin Park city attorney as part of an investigation into their dealings with marijuana businesses, [the Los Angeles Times reported](#). A former police officer said in a declaration that three cannabis businesses

complained to him about "questionable business practices, which included paying as much as \$250,000 cash in a brown paper bag to city officials."

These cases didn't occur in a vacuum. The FBI has been warning states across the country about the public corruption threat posed by the marijuana industry.

"We've seen in some states the price go as high as \$500,000 for a license to sell marijuana. So, we see people willing to pay large amounts of money to get in to the industry," said special agent Regino Chavez [during an FBI podcast last year](#).

Further north in Sacramento, Andrey Kukushkin, the chief financial officer of a company that operates a cannabis dispensary, was indicted on federal campaign finance violations alongside Parnas and Fruman, who had allegedly helped Giuliani look into U.S. officials in Ukraine as part of his probe into President-elect Joe Biden. Kukushkin pleaded not guilty to the federal charges.

The Ukrainian-born Kukushkin and his partner are the "de facto pot kings of Sacramento," [the Sacramento Bee reported](#), controlling nearly one-third of the local market. Kukushkin was also set to partner with the San Francisco Veterans Affairs Medical Center on a cannabis research project, but the agreement was scrapped just weeks before he was indicted, [POLITICO first reported](#).

Kukushkin, along with the other three individuals indicted in the case, planned to use funds from a Russian national for political donations in Nevada and New York in order to secure marijuana licenses, [according to federal prosecutors](#).

Parnas and Fruman also attempted to get into the pot business in Florida, but [industry insiders told POLITICO](#) that their lack of familiarity about cannabis regulations in California and Nevada, where they claimed to hold licenses, raised red flags.

If the same players are repeatedly getting licenses, "it stifles creativity and ingenuity and new ideas in the space," Nourafchan said. "The person who has an incredible application, but doesn't have deep pockets to pay off local officials, is prevented from adding their own contribution."

Limited programs, license caps

It's not just liberal states, eager to help local communities scarred by the drug war, where corruption has emerged as an issue.

Medical marijuana programs in more conservative states such as Arkansas and Missouri have also been dogged with allegations of corruption, though none have stuck in court. In both states, applicants who lost out on licenses believe the supposed "merit-based" application process was rigged to benefit the politically well-connected.

Naturalis Health, one of the losing applicants in Arkansas, succeeded in getting a temporary restraining order against the state Medical Marijuana Commission after a Circuit Court judge ruled that the

regulators carried out the licenses process in a “flawed, biased, and arbitrary and capricious manner.” But that ruling was [thrown out by the state Supreme Court](#).

And while Arkansas Attorney General Leslie Rutledge wrote in a letter to the chief justice that allegations of improprieties are “unsubstantiated,” she raised the issue of a commissioner being offered a bribe by one of the winning companies. The commissioner did not report the attempted bribe, Rutledge wrote, and there is no law requiring him to do so. But the commissioner gave the applicant “the second-highest score that he awarded to any entity,” which was “significantly higher” than any other commissioner.

“We have no evidence that the commissioner took the bribe or based his scoring on the offer,” [the letter, first reported by KHBS, read](#). “Still, we believe we needed to provide these facts to the tribunal.”

Other applicants similarly filed lawsuits and ethics complaints about the process.

“It was just unbelievable ... the level of corruption was shocking to me,” said Mildred Barnes Griggs, who was part of a team that applied for but did not receive a license in Arkansas, and responded with a series of official complaints alleging favoritism and a lack of accountability. “Open corruption. Corruption that went unpunished.”

Arkansas gave out only five cultivation licenses in the first round of licensing and Griggs says the license cap played a big role in promoting wrongdoing, including awarding licenses to applicants who provided false information and one who [seemed to plagiarize much of its application from another team](#) that didn’t receive one. She and Olly Neal, another member of her application team, were both motivated to get involved in the cannabis industry after seeing high levels of poverty in their communities and the devastation of disproportionate marijuana arrests of African Americans.

Both Griggs and Neal hail from Lee County — named after the Confederate general — and went to segregated schools growing up. Neal went on to become the [first Black district prosecutor](#) in the state, and eventually served as a judge in the state circuit and appeals courts. Since voters in the state approved medical marijuana legalization at the ballot box in 2016, arrests for possession have trended upward, [according to data from the American Civil Liberties Union](#). In Lee County, Black people are four times more likely to be arrested for marijuana possession than white people, slightly higher than the national average.

Griggs and Neal felt that allowing their application, which was rooted in a Black community that had suffered from the drug war, would spur economic development and heal some of the wounds. But they say that despite encouragement from the state to apply, the process was rigged from the beginning.

Neal filed a complaint with the Arkansas Ethics Commission, pointing to Medical Marijuana Commissioner Travis Story's ties to one of the winning licensees, Osage Creek Cultivation. As a lawyer, Story had helped the owners of Osage Creek in previous business and land-use matters unrelated to medical marijuana. The commission dismissed the complaint, saying that licensing medical marijuana businesses did not qualify as a “procurement matter” [under state ethics laws](#).

Story's ties to state Sen. Bob Ballinger, who is a partner at his law firm, [raised eyebrows for the various campaign contributions Ballinger received](#) from medical marijuana hopefuls.

Story has [denied any allegations of bias](#) or impropriety during the licensing process.

Other legal challenges were also filed by those who didn't secure licenses, including by Griggs' team. Those lawsuits alleged that the regulators violated their own rules during the licensing process, and that the licenses were [awarded in an "arbitrary and capricious" manner](#). None of them prevailed in court except one: Abraham Carpenter, a farmer in Grady, Ark., who also grows produce and hemp. Carpenter Farms was the only 100 percent Black-owned applicant. Despite the application's high score, it was disqualified based on a "scriveners' error," a minor inconsistency in two parts of his application, despite the fact that one of the winning applicants had the same error.

During a commission hearing in June, Carpenter explained how he had taken his grievances to the attorney general's office, the commission, and even the governor's office. Everyone told him his only remedy is through the courts.

"We'll, we've been all the way to the Supreme Court and we prevailed," he said. "We are yet to be treated fairly."

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The licensed cultivators "want to fix prices at high levels," said Billy Murphy, the Baltimore civil rights attorney who represented Carpenter in the case. "We belong at the table. We've earned it with our blood, sweat, tears, our prison sentences."

The state Supreme Court ruled that the commission violated equal protection, amounting to racial discrimination. The regulatory agency "differentiates among individuals (the 100 percent minority-owned applicants and everyone else)," the court wrote.

Carpenter eventually got a license, but another lawsuit from existing growers [is trying to stop newer licenses](#).

License caps similarly befell Missouri's medical marijuana program earlier this year after regulators decided to cap the number of licenses to the minimum required under the law. The limited licenses and perceived scoring disparities led to more than 800 administrative appeals, law enforcement and legislative investigations, and a lawsuit challenging the license cap.

Even if there wasn't outright corruption, state Sen. Peter Merideth told POLITICO earlier this year that [even the appearance of corruption was problematic](#). A [legislative report](#) penned by a lawyer for the state Democratic caucus cited "credible allegations" of executive branch interference with the corruption investigation. But the Republican-led investigation fizzled out, and it's unclear whether the Special Committee on Government Oversight will pick it up next session.

"Where there's money, there's people in powerful positions able to steer contracts or granting of licenses in one direction," Kenneth Warren, a political science professor at Saint Louis University, said of the conflict-of-interest allegations. He cited an "endless" list of groups involved in the medical marijuana program that are connected to the Parson administration.

While Arkansas' marijuana regulators scored the applications themselves, Missouri regulators hired a third party. In both cases, detractors pointed to scoring irregularities and questioned how "blind" the process really was.

A major sticking point in Missouri's licensing process was the late addition of "bonus points" for locating businesses in certain ZIP codes after many applicants had already secured real estate for their businesses.

During a trial over the state's medical marijuana program, the top cannabis regulator testified under oath that the FBI subpoenaed the agency for information involving four medical marijuana license applicants. The subpoena was likely tied to an FBI investigation into utility contracts in Independence, [the Missouri Independent reported](#). The judge in the trial ultimately tossed the case.

"Because the state is delegating exactly who is in control, who is doing the review process of the licenses, who approves them, who creates the applications, etc. it's a breeding ground for corruption," Nourafchan said.

The cannabis industry is "particularly vulnerable to lacking a set of safeguards or regularity that might hedge against corruption in other areas," said Berman, the Ohio State law professor. Even with other vice industries like alcohol or gambling, policymakers have been working on regulating those industries for decades. "In the cannabis space, we're almost literally making it up as we go. No history, no background, no norms," he said.

States that have largely avoided corruption controversies either do not have license caps — like Colorado or Oklahoma — or dole out a limited number of licenses through a lottery rather than scoring the applicants by merit — like Arizona. Many entrepreneurs, particularly those who lost out on license applications, believe the government shouldn't be in the business of picking winners and losers and should just let the free market do its job.

"It was far more political than I had ever anticipated," said Barnes Griggs of her application experience. "People were encouraged to apply, but you didn't stand a chance. It was already rigged."

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