

Second Regular Session  
Seventieth General Assembly  
STATE OF COLORADO

**PREAMENDED**

*This Unofficial Version Includes Committee  
Amendments Not Yet Adopted on Second Reading*

LLS NO. 16-0457.01 Michael Dohr x4347

**SENATE BILL 16-040**

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**SENATE SPONSORSHIP**

**Holbert,**

**HOUSE SPONSORSHIP**

**Pabon,**

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**Senate Committees**

Business, Labor, & Technology  
Appropriations

**House Committees**

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**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.**

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**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/bills summaries>.)*

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.*

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.

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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 12-43.3-  
18           501 (1) (a), C.R.S. To implement this act, the department may use this  
19           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.