

**Testimony of Cannabis Farmer's Alliance
Public Protection and General Government
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**By Steve Halton
Vice-President**



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Economic Development
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Thank you, Chairs Krueger, Pretlow, Stirpe, and Baskin, and Members of the New York State Senate and Assembly. I am Steve Halton, Vice-President and Co-Founder of Cannabis Farmers Alliance (CFA), CEO of Halton Hay and a licensed cultivator, processor, and distributor.

On behalf of the Cannabis Farmers Alliance (CFA), we want to thank the Legislature for its support of the supply side of the cannabis industry. Along with you as Chairs, we have had significant support from the legislature in trying to address various cannabis supply side issues and we are grateful for that support. We are particularly indebted to the Chairs of the Agriculture committees, Senator Hinchey and Member of Assembly Lupardo.

For example, last year alone, the Legislature passed legislation to help farmers such as annual tax elections, special event permits, and codifying cannabis as an agricultural crop. These programs have offered financial relief, opened new paths to viability and normalized our industry.

Today I hope to discuss an issue that we have been advocating on for several years: the shifting of cost of seed-to-sale tracking from licensees to the Office of Cannabis Management (OCM). We have engaged our partners from across the industry on this issue, and we have submitted a joint letter of support from every major cannabis stakeholder and association in the hope that the Legislature will prioritize this critical initiative. **In short, we urge you to adopt S.8264(Hinchey)/A.8820(Dais) in your Legislative One House Budgets.**

Recently, after several starts and stops, OCM has begun to implement seed-to-sale (STS) tracking through its vendor, Metrc. We strongly support implementation of STS as a critical function for market integrity. STS requires the placement of tags on cannabis product to track its path throughout the cannabis supply chain: from seeds in the ground to consumer consumption. Implementation of STS represents a significant step in combatting cannabis inversion, which is the introduction of out-of-state cannabis into the New York market.

Moving the costs of STS from licensees to OCM will achieve the goal of preventing inversion of out of state cannabis, provide relief to cannabis farmers and their supply side partners, and generate market data that will result in better management of the overall market. That is why, in other states with STS systems, including Massachusetts, Michigan, and California, the regulator absorbs the cost of STS as part of its market integrity and enforcement function.

This is because the costs of STS are prohibitive, despite the low cost of individual tags (\$0.10). We estimate the cost of such tags to the supply side at many millions of dollars. We simply cannot afford this mandated cost. Moreover, the fewer tags we purchase, the lower the amount of product that is available in the market. This causes consumers costs to rise, and undercuts the legal market by driving customers back into the illicit market, defeating the purpose of the STS system implementation.

The problem is not STS, but a misalignment in incentives between the OCM and licensees. OCM is obligated by statute to select a vendor but is not obligated to pay the vendor selected. Instead, the cost of the contract is passed on to licensees. Since OCM does not pay the vendor, it has little to no incentive to control costs, reduce the number of tags, or otherwise act in a manner that would benefit licensees to the detriment of its vendor.

OCM originally chose Biotrack as its STS vendor; Biotrack was subsequently purchased by Metrc, leaving a functional monopoly in this space. As licensees we cannot negotiate with Metrc to change the cost of tags, nor can influence the number of tags required. This has real world consequences- since the purchase of Biotrack by Metrc, the number of required tags by the STS vendor has more than doubled, including the creation of a new category of tags “Retail UID tags” which no other adult use market in the United States utilizes.

The creation of this tag- unique to the New York market- serves no regulatory purpose, yet will contribute significantly to cost. Although Metrc has stated that the Retail UID tag is important for quarantine and recall purposes, the fact of the matter is that Metrc has required the tag for every single product sold to retailers. This requirement is inconsistent with current quarantine and recall processes, which require licenses to destroy products in lots when contaminated. The cost of a Retail UID alone increases costs exponentially. For example, under Biotrack, licensees were required to tag a lot, perhaps of 100 units, with the cost at 10 cents per lot. The Retail UID tag must now be laced on all 100 products in the lot, increasing cost from 10 cents to 10 dollars. Thus, we have seen our anticipated costs rapidly increase before the program has even begun.

Critically, we can expect our costs to rise further, as Metrc has been unabashed in stating that it intends to raise the cost of tags from 10 cents to upwards of 40 cents, quadrupling costs to licensees. This initiative is critical this year, as OCM is planning to begin negotiations on a new STS contract this year. If the OCM is bearing the costs of STS, the agency will be more inclined to negotiate a lower total rate compared to the status quo where the licensees (payors) lack a seat at the negotiating table.

There are other, equally important, policy reasons that the Legislature should act to shift the cost of STS from licensees to OCM. First, the whole market benefits from the requirements of STS however, ONLY the supply side bears the cost of this requirement. The State is placing the costs on those least able to afford it. By transitioning the costs to OCM, which is funded by taxes paid by the entire industry, the entire market would bear the burden of compliance and each stakeholder’s incentives would be aligned.

Further, STS is akin to a regressive tax on cultivators and processors. Margins on the supply side are much smaller than the retail side. Our margins are frequently under one percent, while retail margins are between 15-25 percent. In order to ensure fairness in the Market, the cost of this critical function should be borne by the Entire Market.

Last, OCM should welcome the cost of STS for these important functions. By assuming STS costs, OCM will have greater insight and access to data on the supply side that it currently lacks, and STS will help it more effectively identify bad actors. Likewise, OCM will better be able to gauge market dynamics. Thus, OCM would benefit threefold from the assumption of STS costs:

first, this policy would enhance transparency on the supply side of the cannabis industry, which data could be used in a public or regulatory manner; second, such data collection would assist in enforcement priorities and would enhance industry compliance; third, it will help the Office in licensing determinations, as the amount of available canopy would be apparent in real time, helping the Office gauge the need for additional canopy, or alternatively, the need to restrict such growth.

For all of these reasons, we urge you to address this pressing issue in the FY 2026-27 state budget by adopting S.8264(Hinchey)/A.8820(Dais) in your Legislative One House Budgets.