

Liquor and Cannabis Board
House Commerce & Gaming Committee
September 12, 2019

1) Infrastructure

a. License types

- 979 Producer/Processor
- 149 Producers
- 236 Processors
- 482 Retailers
- 46 Title Certificates
- 13 Transportation
- 1 Research (and 1 pending)

Discontinued Licenses

- 115 Producers
- 31 Processors
- 11 Retailers
- 5 Transportation

b. Medical Endorsements

- 267 retailers hold medical endorsements
- This figure represents 56% of retailers

c. Cooperatives

- 140 applications were received for coops
- 29 cooperatives are registered
- 3 are located in each of Klickitat, Mason and Thurston counties
- 2 each are in Clark, King, Kittitas and Snohomish counties
- 1 each are in Asotin, Benton, Franklin, Pierce, Skamania, Snohomish and Whatcom counties
- 1 each in the cities of Auburn, Puyallup, Redmond, Seattle, Snohomish, and Sunnyside

e. Traceability

- The LCB has been working with our current vendor, MJ Freeway, on developing and implementing a traceability system since July 2017.
- Between 2017 and 2019, there have been three software releases.
- The most recent release was July 15, 2019. The release was designed to address some of the larger issues encountered during the earlier releases.
- The July 15 release created some new challenges and difficulties. A key problem included that lab results for newly required tests were not correctly added to existing inventory, therefore making it challenging to transfer product.
- The agency took steps to address several issues, including adopting a Board Interim Policy to allow licensees to continue operating as long as they maintained records that trace product and notify the agency in advance of any workaround procedures they plan to use; allowed for

manual manifesting; and, continued working with vendor to address obstacles in the system itself.

- The LCB continues to work with vendor to stabilize the system, and has put any additional releases on hold.
- The agency is having discussions regarding the state's approach to traceability and then will consider what implications there may be on our system.

3) Investment

a. Ownership

Criminal history verification
Every three years
All parties, including spouses
FBI background checks
Financial background investigation
Business start up costs
Source of funding
Six-month Washington residency
Entity must be formed in Washington state
Vertical integration prohibited

b. Financiers

Criminal history verification
Valid for one year
FBI background checks
Verification of funds contributed
No Washington state residency requirement
Ability to invest in all license types

4) Product Types

a. Product types and concentration

Usable Marijuana	Concentration
Joints	0.3% - 30% THC
Flower	
Trim	
Edibles	Concentration
Mints	Up to 10 mg THC per serving
Sodas	
Brownies, etc.	
Concentrates	Concentration
Butane Hash Oil	30% - 99% THC
Rick Simpson Oil	
Shatter, Hash, Rosin	

Other

Topicals
Tinctures
Capsules
Suppositories
Transdermal patches

c. Sales

- Sales of usable marijuana (flower), measured by revenue, grew strongly until mid-2016
- Since mid-2016 sales for this product type have held steady or dropped (measured by revenue, not volume; prices have fallen over this period, offsetting larger sales volume)
- The largest change in the face of the marketplace is the shift away from flower and toward concentrates;
- From June, 2015 to July, 2019, the market share of flower has dropped from 75% to under 52%, while concentrates have jumped from under 14% of the market to 37%.

5) Enforcement

a. Recent trends in Cannabis violations/complaints

From October, 2018 through August, 2019 ...

The percentage of identified violations that resulted in a warning rather than any fines or penalties has increased from 61% in Oct-Dec 2018, to 65% in Jan-March 2019, to 70% in the April through June 2019 quarter, and for July-August this year it's at 84% of violations resulting in warnings.

Top 5 complaints in FY 19:

- Advertising (108)
- Conduct violations: criminal conduct (90)
- Traceability (51)
- True Party of Interest (50)
- Using unauthorized pesticides (42)

Top 5 Violations in FY 19:

- Advertising (71)
- Failure to maintain security alarm and surveillance systems (63)
- Sale or service to minor (48)
- True Party of Interest (30)
- Using unauthorized pesticides (28)

Cannabis vs. Liquor Compliance rate (sales to minors)

July 2019: Cannabis, 93%, Liquor 87%

b. Update on implementation of ESSB 5318 (See powerpoint presentation)

- The agency convened a workgroup of cannabis industry attorneys and other licensees and representatives to collaboratively overhaul the penalty rules.

- One or two meetings per month were held over several months to re-write the rules.
- Those productive, collaborative work sessions constitute a model for good governance and best practices in developing regulations.
- LCB released draft conceptual penalty rules to our licensed community and stakeholders for review on August 29, 2019.
- We anticipate robust stakeholder engagement through listen and learn session beginning September 26, and throughout October.
- We anticipate a rule proposal in mid-November, a public hearing in mid-December, with adoption shortly after the first of the year.

Highlights of the current draft penalty rules

- Reduces all fines by 50%;
- Significantly reducing the number of violations that could result in license cancellation, while balancing penalties across license types;
- Shifts focus to a compliance and education-based approach designed to encourage and support licensee success;
- Provides a penalty deferral option;
- Completely restructures existing penalty grids by establishing penalty categories based on penalty severity and relationship to public health and safety;
- Reincorporates and associates statutory and regulatory references with violation type;
- Incorporates mandates of [ESSB 5318](#), including but not limited to establishing a notice of correction, and laying the foundation for the voluntary compliance program

Compliance program

- Rule development regarding the voluntary compliance program for marijuana licensees described in ESSB 5318 was commenced under a separate CR101 filed on July 17, 2019. The legislation requires the LCB to create this program in consultation with licensed marijuana businesses and their employees. We are in the early stages of planning this work, and anticipate a rule proposal in the spring of 2020.
- This approach to implementing the requirements of ESSB 5318 has offered the LCB the opportunity to work closely and collaboratively with our licensed community and industry partners, which we believe will result in enforcement guidelines and a voluntary compliance program that not only achieve the goals of ESSB 5318, but are durable and understandable.

6) Research and Development

b. barriers

- Cannabis' schedule 1 status continues to serve as a barrier for conducting some types of cannabis research (particularly those with human subjects).
- Despite scheduling, researchers have found creative ways to research how cannabis and changes in cannabis law are impacting human health and communities.
- Researchers use social media data and survey data to better understand consumer experience, marketing, and regulation.
- The LCB maintains contact with local researchers to better understand the research environment.

- NIDA, the National Institute on Drug Abuse, recently put out a request for proposals on cannabis as it relates to a variety of regulatory issues.
- The LCB continues to monitor research on cannabis and pregnancy, packaging and labeling, youth prevention, medical cannabis, and a number of other regulatory issues.

c. research licensee

- LCB does not receive reports of the research agenda for our licensee
- We recommend contacting the licensee directly. Contact information below:
Verda Bio Research, Seattle
Contact: Jessica Tonani
Email: jtonani@verdabio.com
Phone: 206-669-4402