



Washington State
Liquor and Cannabis Board

Update on WA Cannabis System

Rick Garza, Director
Liquor and Cannabis Board



Overview

- Meet the Board and LCB general agency overall
- Washington's cannabis regulated system today
 - Licenses
 - Revenue generation
 - Revenue distribution to counties
- Key issues facing the LCB
 - Social equity
 - Synthetically-derived THC
 - Retail robberies
- Data and trends
 - Enforcement and Education Division compliance data and trends
 - International Cannabis Policy Study (WA) data and trends
- Cannabis Regulators Association (CANNRA)



Meet the Board



Board Chair David Postman

- Appointed March 15, 2021
- Former Chief of Staff for Gov. Inslee, award winning reporter



Board Member Ollie Garrett

- Appointed Aug. 15, 2016
- Small business owner, African-American business and community leader

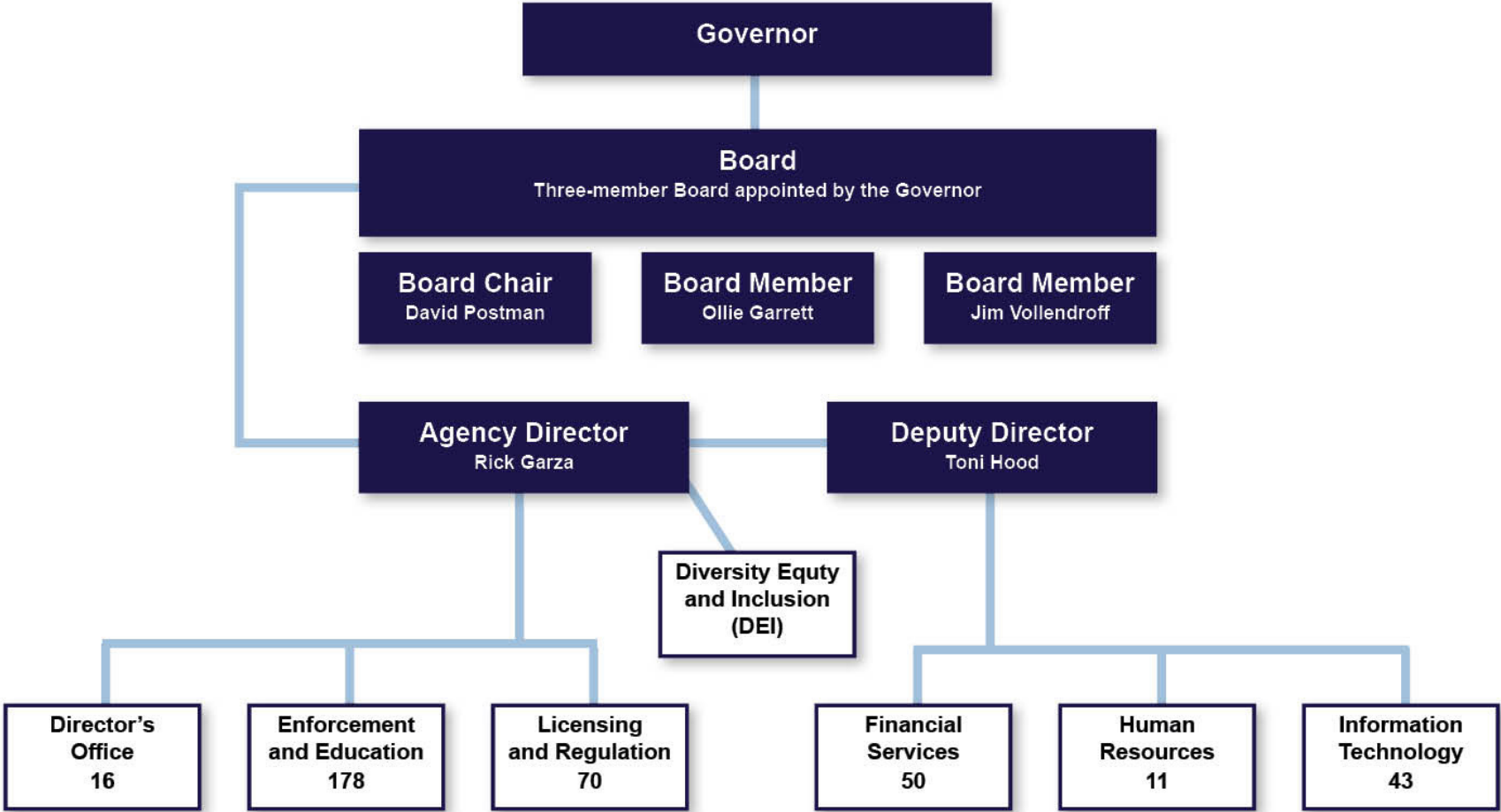


Board Member Jim Vollendroff, MPA

- Appointed May 2, 2022
- Behavior health leader at UW, Harborview/UW Medicine Behavioral Health Institute, and King County Behavioral Health



Organization Chart with Employees by Division





LCB Overview

The mission of the Liquor and Cannabis Board is to promote public safety and trust through fair administration, education, and enforcement of liquor, cannabis, tobacco, and vapor laws.

Policy and Rules Oversight (in Licensees)

Alcohol	Cannabis	Cannabis Labs*	Vapor
18,473 Retail	170 Producer	10 private labs	3, 973
8,215 Non-Retail	878 Producer Processor		
	236 Processor		
	482 Retailer		
	10 Transportation		

* non-licensed and certified by LCB contractor RJ Lee

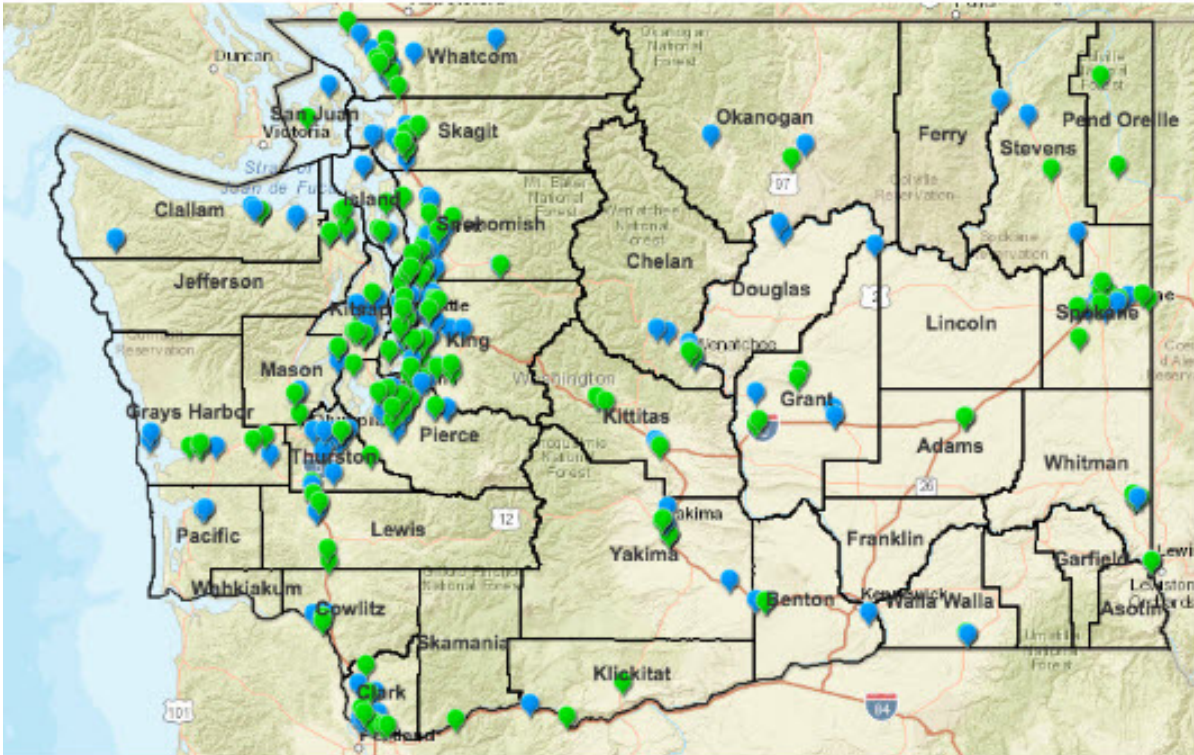
In addition:

- LCB collects various taxes and fees related to spirits, beer, wine and cannabis

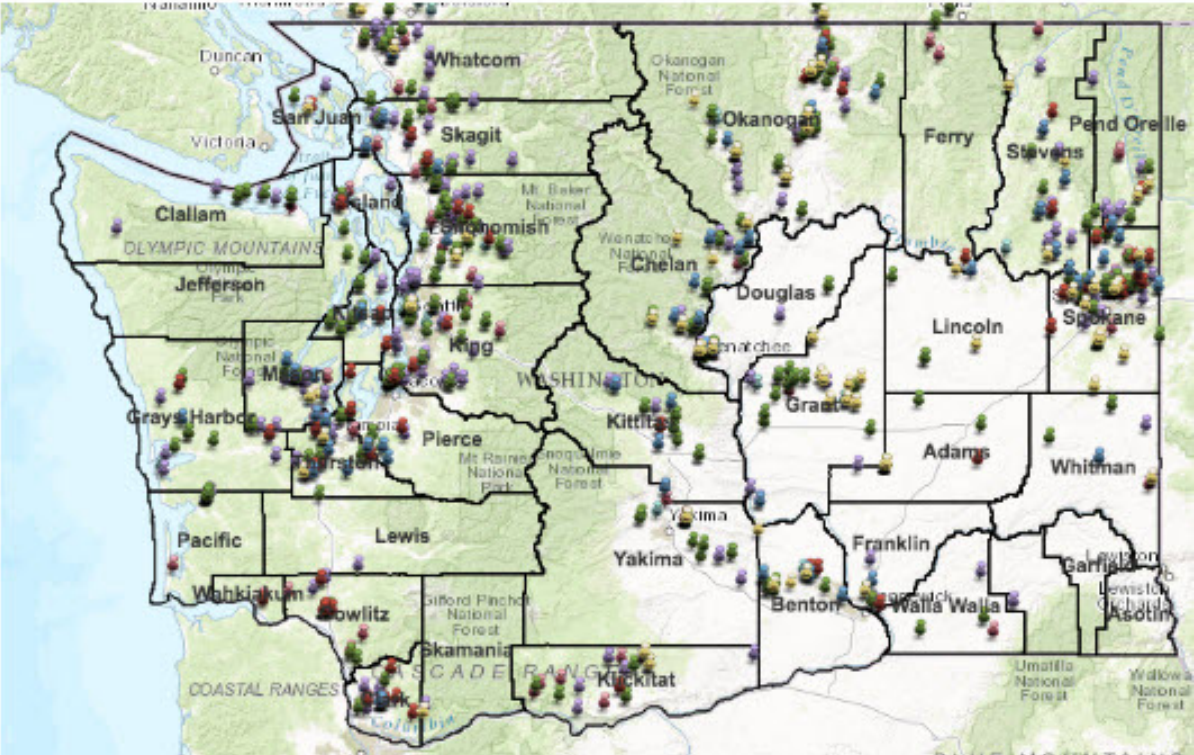


Licensed Locations – LCB Dashboard

Retail Locations



Producers/Processors





Retail Sales/Excise Tax (in millions)

<u>Fiscal Year</u>	<u>Retail Sales</u>	<u>Excise Tax</u>
2015	\$175.4	\$64.9
2016	\$501.9	\$185.7
2017	\$850.8	\$314.8
2018	\$978.4	\$362.0
2019	\$1,055.1	\$390.4
2020	\$1,268.1	\$469.2
2021	\$1,497.0	\$555.4
2022	\$1,380.0	\$511.1

*In addition, DOR collects Retail Sales and Business and Occupation taxes. A portion of the sales tax goes back to cities and counties.



Where the Money Goes

Estimated Net to Distribute		\$524,092,040	\$519,782,113
Agency	For	FY 22	FY 23
Dept. of Health	Marijuana education and public health program	\$10,538,000	\$10,562,000
University of Washington	Research on short- and long-term effects	\$243,000	\$243,000
Washington State University	Research on short- and long-term effects	\$138,000	\$138,000
WA Health Care Authority	Basic Health Trust Fund Account	\$262,046,020	\$259,891,057
	Contracts with community health centers; Prevention and reduction of substance abuse	\$52,304,000	\$52,975,000
Supt. of Public Instruction	Drop-out prevention	\$520,000	\$533,000
General Fund		\$198,303,020	\$195,440,057



Local Distributions

The distribution of cannabis excise tax revenue is made according to [RCW 69.50.540\(3\)\(c\)](#).

For FY 2023:

The legislature appropriated \$25,243,000 for distribution to local jurisdictions.

Two components of excise tax distribution:

1. Based on **sales** of cannabis products that occurred within the individual jurisdictions.
2. Based on **population** of the jurisdictions.





Local Distributions cont.

Sales Component

30% of the total available for distribution is distributed to each jurisdiction where a cannabis retailer is located that generated cannabis excise tax.

The amount each jurisdiction receives is based on the proportional share of the statewide total cannabis excise tax that was generated in the individual jurisdiction.

Population Component

The remaining 70% is distributed to counties, cities, and towns ratably on a per capita basis.

- Counties receive 60%*
- Cities and towns receive 40%*

FY 2022 Distributions to Counties

*Jurisdictions are not eligible for the sales component distribution if they prohibit the siting of any cannabis producer, processor or retailer.



Key Challenge: Emergence of Hemp-Derived Cannabinoids

Delta 8, 9 etc.

- Impairing, unregulated, untested
- Chemically converted from hemp-derived CBD
- Widely available online and non-LCB licensed retail outlets
- Industry is divided over how to handle

Public Health Concern: Health Risks

Manufactured using methods, solvents, or chemical processes that are not disclosed and may pose unknown health risks. The FDA and CDC both issued warnings last year about the potential health effects of these products.

According to the FDA, 660 cases of exposure to delta-8 THC were reported to poison control centers from January through July of last year. The exposure involved:

- 39% of cases were people under age 18;
- 18% required hospitalizations (including children requiring ICU admission).

LCB Response

- LCB is proposing legislation to regulate products containing any type of THC, whether from hemp or cannabis, and enable the state to effectively enforce age restrictions.





Key Challenge: Social Equity Licensing...

Additional Licenses to be Issued

- 2020 LCB-request legislation directs the LCB to issue a limited number of retail licenses for those who meet the criteria established by the Social Equity in Cannabis Task Force.
- 44 licenses that were forfeited, cancelled, or revoked or never issued will be available in specific jurisdictions across the state.
- Applicants who meet the eligibility qualifications and score the highest on the Social Equity rubric will have the opportunity to complete the licensing process.
- License application window will open in 2023.



LCB Response

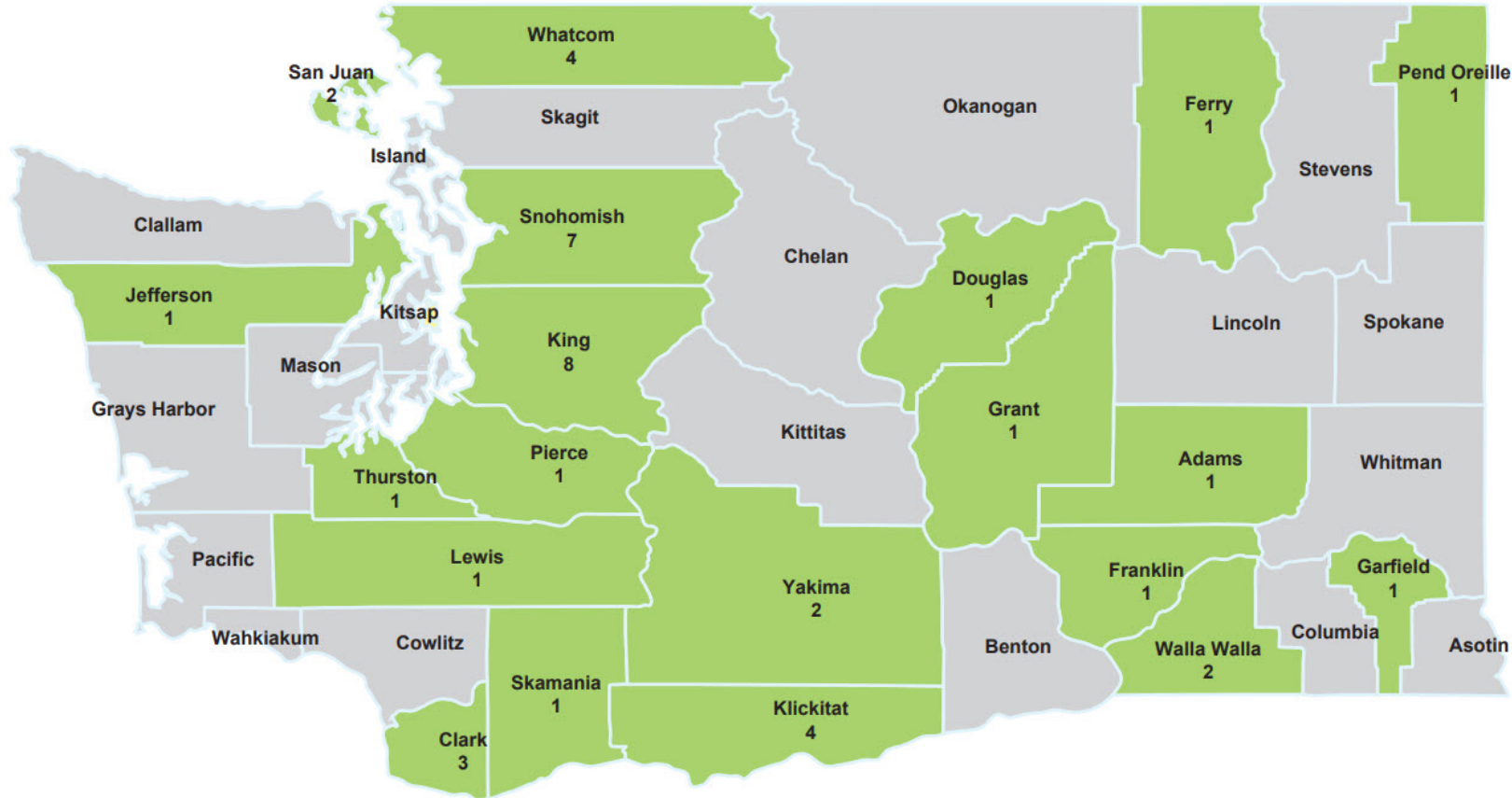
- The LCB is proposing legislation that would allow the Board to create a modest number of additional social equity licenses based on population growth since 2014.
- These licenses could be located in any willing local jurisdiction at initial licensure.

...Social Equity Retail Licenses Available by County



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Social Equity Licenses Available by County



*There a few exceptions of jurisdictions where a retail license is available but a store will not be allowed to locate.



Key Challenge: SAFE Banking and Public Safety

Cannabis has been Legal in WA State for 10 Years

- Remains federally illegal
- Cannabis retail stores are still forced to rely on cash transactions
- According to one report, robberies surged in 2022
 - 70 robberies occurred in the first half of 2022
 - Robberies are focused on cash, not product
- Statewide officials continue to urge Congress to pass SAFE Banking Act

Public Safety Need

- Access to federally-insured banking services
- Access to electronic payment processing

LCB Response to Robberies

- Board led Summit in March 2022
- Partnered with WA State Crime Prevention Association (WSPCA) to provide retail safety training
- Partnered with experts to provide in-store security assessments directly to cannabis retailers



Photo: Courtesy KOMO TV



Additional Challenges

Conflicts with Federal Law

- Doesn't change federal law
- Remains Schedule 1 Controlled Substance
- DOJ rescinded the federal guidance causing uncertainty
- Research and development is suppressed

Bans and Moratoria

- Court ruled that because I-502 was silent on bans/moratoria that cities/counties can ban cannabis businesses

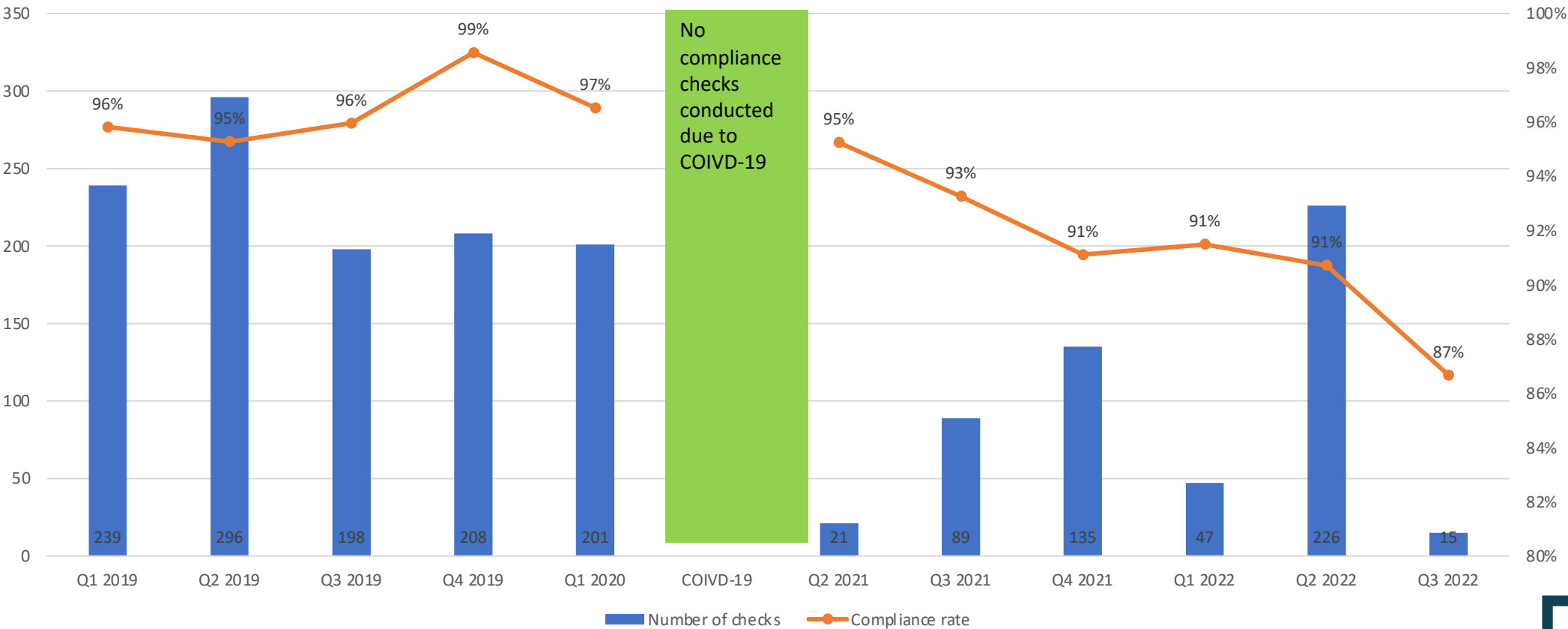
Public Health

- EPA and federally regulated pesticides guidance not available to states



LCB Enforcement and Education Data

Cannabis Compliance: Youth Access 2019-22



Note: When compliance checks resumed all regulated categories (alcohol, cannabis, tobacco/vape) demonstrated a reduction in compliance.

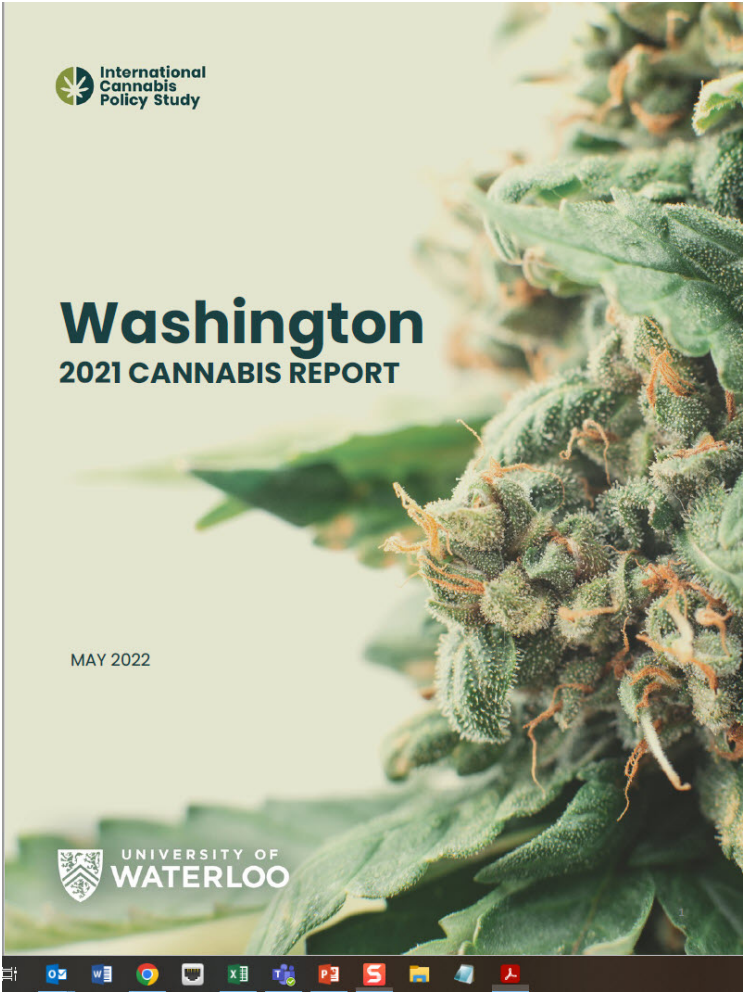
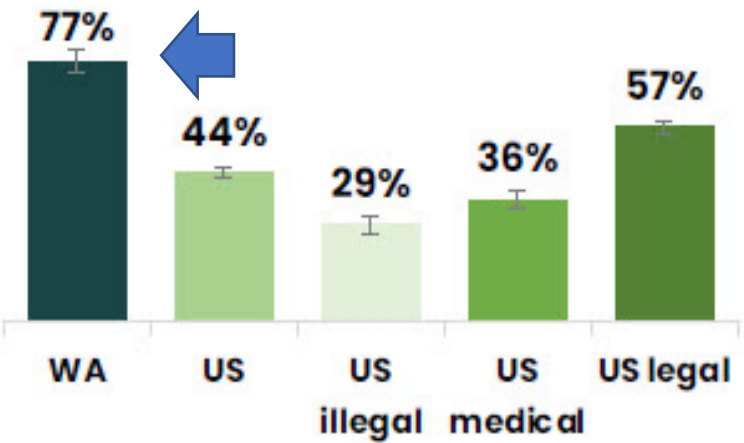


...International Cannabis Policy Study – WA Data...

Cannabis sources

Compared to other state categories in 2021, Washington consumers were more likely to report sourcing cannabis from a store and less likely to report sourcing cannabis from family/friends or a dealer.

Store, co-op, or dispensary





...International Cannabis Policy Study – WA Data

David Hammond, PhD – University of Waterloo

Summary of key additional points

- WA prevalence of use is higher than “all states”
- “Never used” = 25.4% vs “Daily or almost daily” = 17.3 percent%
- Most Used Method
 - Dried flower for smoking but it’s decreasing
 - Edibles and concentrates are rising
- Ages 26 – 35 highest prevalence of any use
- Percent identifying as medical only user has stayed relatively stable (21-25 percent) although having a medical recommendation is lower (9 percent)
- Price paid for dried flower is lower than illegal sources, yet perception is that legal sources are more expensive



Purpose of CANNRA

Forum for regulators to work with each other to:

- Identify and develop best practices
- Create model policies for public health and safety
- Assist and promote regulatory certainty for industry partners.
- Ensure that as changes to federal cannabis policy are made, they consider the needs of established markets like ours

Assist federal, state, and local jurisdictions that have or are considering legalization of cannabis.

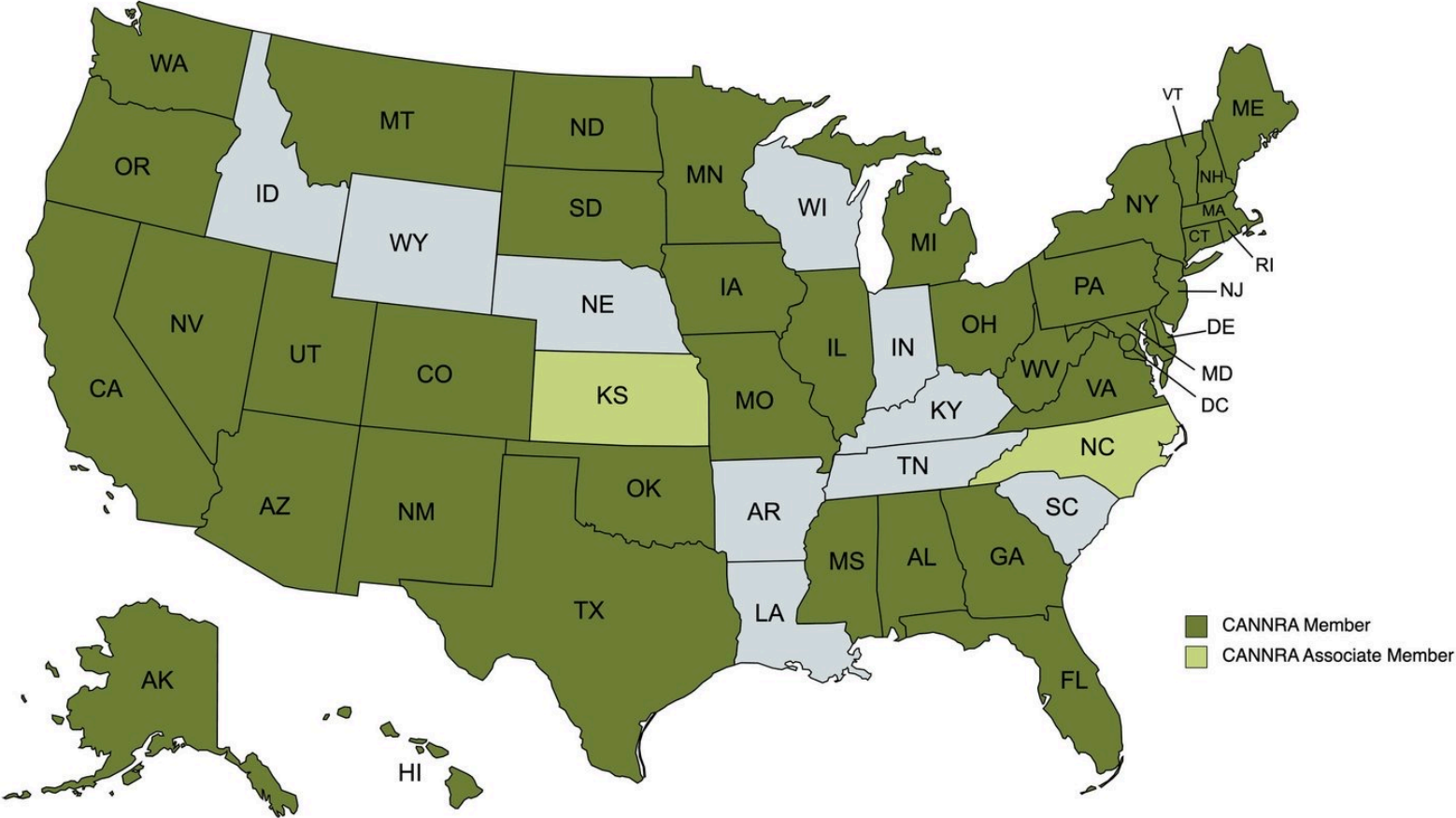
- The intent is to *support policy makers, elected officials, researchers, and other stakeholders.*

Non-political – neutral on legalization

Recently affiliated with Council of State Governments (CSG)



CANNRA Members





List of Active CANNRA Special Committees

- Federal Policy
- Social and Economic Equity
- Lab Testing and Product Safety
- Public Health and Data Monitoring
- Public Education
- Packaging, Labeling, and Advertising
- Medical Use and Research
- Cannabinoid Hemp
- Licensing, Inspection, and Compliance
- Banking, Finance, Insurance
- Market Structure and Taxation
- Impaired Driving and Workplace Safety
- Energy and Environmental Policy
- Interstate Coordination



Federal Policy and Engagement

Goals/Mission:

1. Respect for state rights and states independently created intrastate licensing systems. Respect for all state laws regarding cannabis including: recreational or adult use, medical use, and prohibitions.
2. Strong co-governance in the establishment of minimum standards for all cannabis products for human consumption and inhalation including: potency and safety testing, labeling, packaging and traceability.
A common system of cannabis regulation will support cannabis commerce, preserve state rights, and allow the regulation of indiscernible cannabis products like the current problems with Delta 8 THC.
3. Support for legal banking, equity, and tax fairness as a means to assist states with current efforts to support public health and safety by the development of clear standards for legal commerce and fair market entry and treatment.

Expectation this directionally aligns with the near term work of the U.S. Congress.



Questions?