



Washington State  
**Liquor Control Board**

# **Initiative 502 Implementation**

Creating Washington's system of legalized marijuana

Washington State Liquor Control Board (WSLCB)



# Overview

## Today's Presentation

- I-502 key elements
- Agency objective for implementing I-502
- Rules highlights
- Licenses
- Sales activity
- Education and outreach
- Top 10 lessons learned
- Issues and challenges
- Staying connected



# I-502 Key Elements

**Creates world's first comprehensive system of growing, processing and retailing marijuana.**

- Legalized system of producing, processing and retailing marijuana for adults age 21 and older
- Decriminalizes possession of one ounce of marijuana
  - 1 ounce of useable marijuana for smoking
  - 16 ounces in solid form
  - 72 ounces in liquid form
- Creates three-tier system of licensing, regulation and taxation similar to alcohol
  - Producer license (grower)
  - Processor license (prepares for retail)
  - Retail license (operates marijuana only stores)



# Key Elements continued

## Washington's system...

- Taxation
  - Imposes 25% excise tax at all three license levels
  - Excise tax forecast projections
    - FY 2015                    \$36.3 million
    - FYI 2016                  \$80.0 million
    - FY 2017                    \$119.8 million
    - FY 2018                    \$160.2 million
    - FYI 2019                  \$193.5 million
- Public Safety and Education
  - Establishes a THC bloodstream threshold for marijuana DUI's
  - Limits on store locations, advertising and number of outlets
  - Earmarks revenue for healthcare, research and education



# Agency Objective

## Public Safety

- Create a tightly controlled and regulated marijuana market

## Agency Role and Responsibilities:

- Created a 3-tier regulatory system for marijuana
- Created licenses for producer, processor and retailer
- Enforcing laws and rules pertaining to licensees
- Collecting and distributing taxes/fees



# Rules Highlights: License Requirements

## Licensed Location: 1,000 Foot Measurement

- Under the Board's rules, the 1,000' buffer between the property line of the licensed business and the property line of places where children congregate is measured using the shortest straight line.

## Costs and Fees

- \$250 application fee
- \$1,000 annual renewal fee
- Additional fees for background check and filing for local business license

## Taxes

- License applicants must submit a signed attestation that they are current on taxes owed to the Washington State Department of Revenue

## Insurance

- Licensees are required to carry commercial liability insurance



# Rules Highlights: Public Safety

## Producer Structures

- Rules allow producer operations in secure indoor and outdoor grows, as well as greenhouses

## Traceability

- LCB employs a robust and comprehensive traceability system (software) that traces product from seed/clone to sale
- LCB enforcement can match records to actual product on hand

## Local Authority Objections

- Substantial weight is given to a local authority during the renewal process based upon chronic illegal activity associated with the licensee's operation of the premises



# Rules Highlights: Public Safety

## Background Checks

- Personal criminal history form
- Fingerprinting of all potential licensees
- WSP and FBI background checks of licensees and financiers

## Security and Safeguards

- Alarm and surveillance video camera requirements (including minimum pixels and lockbox encasement)
- Strict transportation and record keeping requirements (no third party transport of product)
- Hours of operation limited to 8:00 a.m. to 12:00 a.m.



# Rules Highlights: Public Safety

## Violation Guidelines

- \$1,000 administrative penalty for minors frequenting
- Sets strict tiered system of violation record over a three year period.  
Example:
  - Group 1 public safety:
    - First violation: 10 day suspension or \$2,500
    - Second violation: 30 day suspension
    - Third violation: license cancellation
- Furnishing marijuana to a minor remains a felony offense

## Child Resistant Packaging

- Specific requirements for marijuana and marijuana infused products in solid and liquid forms



# Rules Highlights: Public Safety

## Advertising Restrictions

- Law restricts advertising within 1,000 feet of schools, public parks, transit centers, arcades, and other areas where children are present
- May not contain statements or illustrations that: are false or misleading, promotes overconsumption, represents that its use has curative or therapeutic effects, depicts a child or may be appealing to children
- All advertising must contain two statements: a: “This product has intoxicating effects and may be habit forming.” And, b: “Marijuana can impair concentration, coordination, and judgment. Do not operate a vehicle or machinery under the influence of this drug.”

## Limits on Retail Stores

- Allocated 334 retail licenses statewide to cities and counties to ensure dispersion.
- In areas where applications outnumbered available licenses, lotteries were held to award licenses



# Rules Highlights: Consumer Safety

## Strict Packaging and Labeling Requirements

- Limited servings and concentration per package
- Lot number
- Warning label
- Net weight
- Concentration of THC
- Usage warnings (specific warning for ingestible foods and/or liquids about effect delays)
- Upon request
  - Third party lab that tested lot and results
  - All pesticides, herbicides, fungicides found in product



## Rules Highlights: Consumer Safety

### Lab Tested and Approved

- All lots will be tested by independent accredited labs
- Established and uniform testing standards

### Store Signage and Product Warnings

- No minors allowed in stores
- Required product and usage signs within stores

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# Rules Highlights: Consumer Safety

## Behind the Counter Storage

- No open containers or handling of product
- Sniff jars with sealed, screened-top lids allowed

## Defined Serving Size

- Defined serving sizes on marijuana-infused product label
  - 10 mg of THC per serving
  - 100 mg of THC per product
  - Serving size must be physically indicated using scoring
  - A single unit of marijuana-infused extract for inhalation cannot exceed one gram

## Transaction Limits on Concentrates

- A single transaction is limited to seven grams of marijuana-infused extract for inhalation



# Licenses

**Issued as of March 10, 2015:**

## **Producer/Processor – 440 licenses**

- 325 Producer/Processor
- 79 Producer only
- 36 Processor only

## **Retail – 127 licenses**

- 111 retail outlets have reported sales



## Sales/Tax Activity

### Sales Activity

- Total Sales (July 8 – Mar. 10): \$ 114 million

### Excise Tax Due:

- Total Tax (July 8 – Mar. 10): \$ 28 million
  - Due on the 20<sup>th</sup> of the month following sales activity



# Education and Outreach

## Materials

- Social Media PSA's
  - Fact-based PSAs focus on educating the public on three key components: age 21, not driving and smoking and consuming in public.
  - Collaboration between LCB, WTSC and Dr. Leslie Walker, Chief of Adolescent Medicine at Children's Hospital
- Consumer's Guide
  - Focuses on today's marijuana potency as well as the basics of the law.
  - Available in retail stores once they begin opening.
- Parent Information Guide
  - Contains information parents need to know about the law and how to talk to their kids about it.
  - Distributed to community leaders at the local level.
  - Partnered with DSHS to produce 50,000 copies.
- Informational Websites
  - [www.LearnaboutmarijuanaWa.org](http://www.LearnaboutmarijuanaWa.org)
  - [www.starttalkingnow.org](http://www.starttalkingnow.org)



## Lesson 1

**There are many challenges of implementing a state law that is illegal federally.**

- Schedule 1 controlled substance
- Banking
- Public agencies reluctant to cooperate
- Creating a controlled market, not open market
- Walking the line between federal expectations and state law requirements – DOJ memo



## Lesson 2

**Be realistic about the time it takes to set up a comprehensive system of growing, processing, and retailing recreational marijuana.**

- Public forums and hearings
- Right system is more important than being fast
- Brookings Institute Study



The image shows a screenshot of a Brookings Institution report cover. The title "BROOKINGS" is at the top in large blue letters. Below it is a subtitle "The Legalization of Marijuana" in smaller blue text. Underneath that is the word "Report" followed by the date "August 25, 2014". The main title of the report is "Washington's Marijuana Legalization Grows Knowledge, Not Just Pot", displayed prominently in large black text.



## Lesson 3

**The impact on agency and state resources is heavy. This is not normal business.**

- Original OFM Fiscal Impact Statement
  - Estimated 100 producers
- WSLCB Application Window Nov. 2013
  - 7,000+ marijuana applications w/in 30 days
  - 2,600 producers and 2,500 processors
  - By comparison....
    - 5,534 grocery stores that sell alcohol licensed
    - 4,929 total spirits/beer/wine restaurants licensed
- Media
  - Top 5 statewide AP story
  - 3,000+ media contacts per year



## Lesson 4

**It helps to know your license applicant base.**

- Many marijuana license applicants are not familiar with operating under regulation
- Basic technology, such as computer access or proficiency, can be challenging
- Public forums held to get input from industry before regulations were drafted



## Lesson 5

**Limit each applicant to a single license per license category to get the system started**

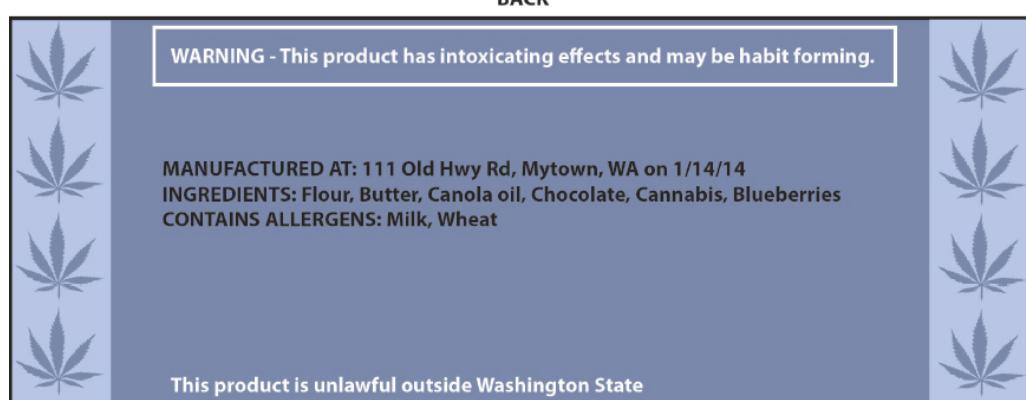
- Creating a restricted marketplace to avert diversion
- WSLCB rules allowed up to 3 licenses per category
- WSLCB had to later limit applicants to single license and refund fee or hold application



## Lesson 6

# Lab testing is important to help further public and consumer safety

Sample Label



- Business/trade name, UBI
- Lot number
- Batch number
- Manufacture date
- Best by date
- Recommended serving size
- Servings per unit
- Total milligrams of active THC
- Net weight
- All ingredients (incl. allergens)
- Warnings and cautions
- Identifier, “Product contains marijuana”
- All marijuana-infused products must be approved by the WSLCB



## Lesson 7

**Product and label approval on edible marijuana products protects kids and consumers.**



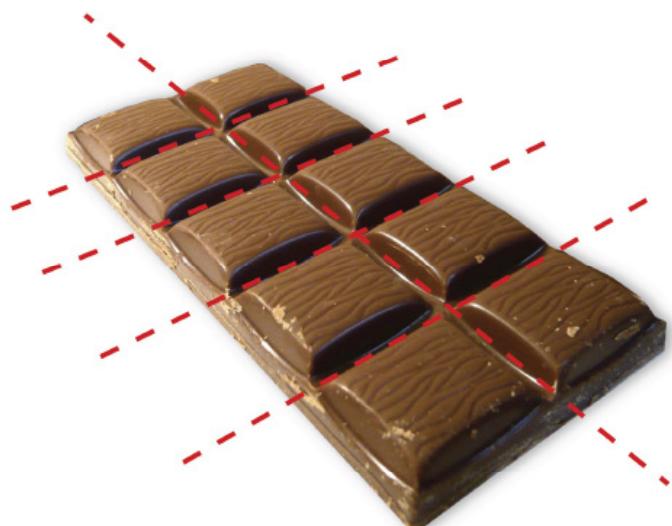
- 4 mil plastic minimum
- Sealed packaging
- No easy-open devices
- Re-sealable: child resistant
- Poison Prevention Act compliant





## Lesson 8

**Serving sizes and scoring promote consumer and public safety.**

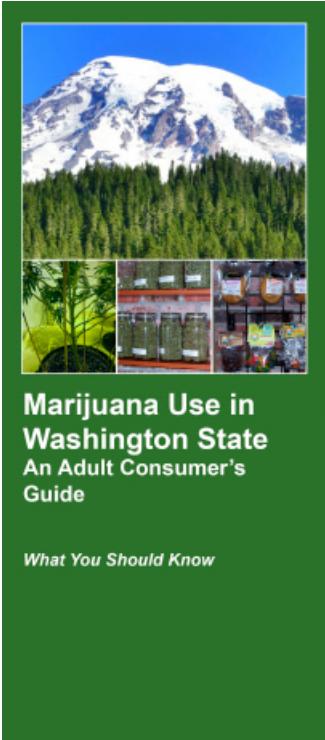


- Serving = 10 mgs THC
- Maximum of 10 servings per unit
- Maximum 100mgs THC per unit
- Servings must be physically indicated
- All products must be tested



# Lesson 9

**Having a public education campaign in place is critical.**

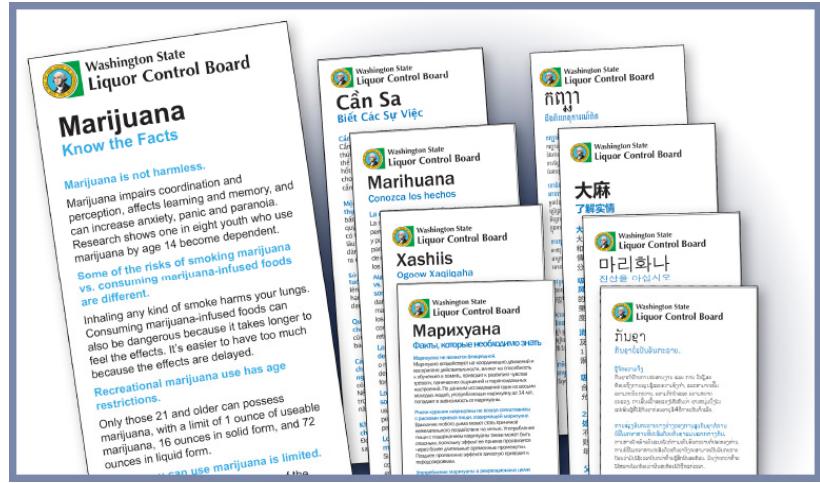


Marijuana Use in  
Washington State  
An Adult Consumer's  
Guide

*What You Should Know*

## Consumer Education

- Consumer safety
  - Potency
  - Edibles
  - Driving/DUI
- Basic law facts
- Resource referral
- 40,000 copies, also available on-line



## Parent Education

- Health risks and laws
- Nine languages
- 55,000 copies printed



# Lesson 10

## Expect the unexpected

- Circumstances outside your control will impact the best laid plans
- Remain flexible
- Be prepared and have the courage to adjust
- Be conservative when projecting revenue



# Current Issues

## Bans and Moratoria

- Judge ruled that because I-502 was silent on bans/moratoria that cities/counties can ban marijuana businesses
- Judge didn't rule on the issue of federal preemption
- Ruling likely to be appealed to WA Supreme Court

## Marijuana Infused Products/Public Safety

- Board took steps back in June by adding additional safeguards to its already comprehensive rules
  - Products must be approved by the Board
  - Products must carry an identifier that they contain marijuana
  - Require homogenization to ensure uniform distribution of THC

Approved products – 239

Denied products – 19



# Current Issues

## Federal Guidelines

- Doesn't change federal law
- Focuses on eight points of emphasis including youth access and public safety
- Allows tribes to participate in the market

## Minimizing Illicit Market

- Balancing product demand with production and over-production

## Medical Marijuana

- Uneven playing field, competing system that is largely untaxed and unregulated
- Confusion over what is/isn't allowed and which locations are/aren't licensed
- Legislature likely to pass legislation this year to merge systems

## Banking

- Dept. of the Treasury allows banks to do business with marijuana licensees
- Continuing to work with the WA's congressional delegation and the Department of Financial Institutions to open up the banking system to additional licensees



## Staying Connected

- Visit the I-502 Webpage. [www.liq.wa.gov](http://www.liq.wa.gov)
  - Factsheets
  - FAQs
  - Timelines
  - YouTube video and/or audio of public forums
- Listserv with over 11,600 subscribers
- Webinars with city and county officials
- Public hearings on rules are posted on website and publicized on the listserv
- News coverage is hard to miss. AP top story of 2012, 2013, 2014



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**Thank you**