



Washington State Liquor Control Board Meeting

Wednesday, September 10, 2014, 10:00 a.m.
LCB Headquarters Building
3000 Pacific Avenue SE, Olympia WA 98501

Meeting Minutes

1. CALL TO ORDER

Chair Sharon Foster called the regular meeting of the Washington State Liquor Control Board to order at 10:00 a.m. on Wednesday, September 10, 2014. Member Ruthann Kurose was also present. Member Chris Marr was absent.

2. APPROVAL OF MEETING MINUTES

Chair Foster noted that the August 6, meeting minutes could not be approved as Member Kurose was not present for the August 6, meeting. She stated that the minutes would be approved upon Member Marr's return when they have a quorum.

3. PUBLIC HEARINGS (A-E)

PUBLIC HEARING 4A - Public Hearing on Distillery & Craft Distillery Changes

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3A 1-3). She provided a brief background noting that these rules are needed to implement the following legislation passed in the 2014 legislative session for SSB 6226 - Distillery and Craft Distillery License Changes.

Proposed Changes

Revised Section: WAC 314-28-005 - Added a definition for "craft distillery".

Revised Section: WAC 314-28-030 - What does a distillery allow? Changed the title of the section. Added language to include what activities a distillery is allowed to conduct under the distillery license which includes selling product of their own production to customers at their licensed premises, providing samples, free or for a charge to customers at their licensed premises, and contract distilling spirits for other distilleries, craft distilleries, and manufacturers' or for export.

Revised Section: WAC 314-28-050 - What does a craft distillery license allow? Changed the maximum amount a craft distillery can produce in a calendar year from 60,000 proof gallons to 150,000 proof gallons. Removed the two liter a day per person limit a craft distiller can sell to customers at their

licensed premises. Added language that allows a craft distiller to charge for samples provided at the licensed premises to customers. Also added language that allows the craft distiller to dilute the samples with water or ice only.

Revised Section: WAC 314-28-055 - What are the requirements for contract production by craft distilleries? Changed the maximum amount a craft distillery can produce in a calendar year from 60,000 proof gallons to 150,000 proof gallons.

Chair Foster opened the public hearing and invited the first citizen to the podium to provide testimony.

Jim Hedrick - Washington Distiller's Guild

Mr. Hedrick thanked the Board for bringing this rule forward and Ms. McCall's good work. He requested a minor clarification regarding the language "allowing the craft distiller to dilute the samples with water and ice only". He understands that the product cannot be altered by retailers at the point of sale but he and his fellow Guild members are wondering if this means the samples can only be altered with ice and water only after sale.

Ms. McCall responded that was correct.

PUBLIC HEARING 4B - Public Hearing on Senior Center License

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3B 1-2). She provided a brief background noting that these rules are needed to implement the following legislation passed in the 2014 legislative session for SB 5310 - Senior Center License.

Proposed Changes

New Section: WAC 314-02-114 - What is a senior center license? Explains the requirements for the senior center license and the activities allowed under the license.

Chair Foster opened the public hearing and invited the first citizen to the podium to provide testimony. No one came forward for comment.

PUBLIC HEARING 4C - Public Hearing on Day Spa Permit

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3C 1-2). She provided a brief background noting that these rules are needed to implement the following legislation passed in the 2014 legislative session for ESSB 5045 - Day Spa Permit.

Proposed Changes

New Section: WAC 314-38-070 - Class 16 day spa permit. Explains the requirements for a class 16 permit and what is allowed under the permit.

Chair Foster opened the public hearing and invited the first citizen to the podium to provide testimony. No one came forward for comment.

PUBLIC HEARING 4D - Public Hearing on Caterer's License

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3D 1-2). She provided a brief background noting that these rules are needed to implement the following legislation passed in the 2014 legislative session for ESHB 2680 - Caterer's License.

Proposed Changes

New Section: WAC 314-02-112 - What is a caterer's license? Explains the requirements for the caterer's license and the activities allowed under the license.

Chair Foster opened the public hearing and invited the first citizen to the podium to provide testimony.

Julia Gorton - Washington Restaurant Association (WRA)

Ms. Gorton began with the background of the bill noting that until HB 2680 passed, the only way a business could cater an offsite event and serve liquor was if they had an on premise license and follow all requirements of a restaurant. Over time business models have changed to be on the catering side only and are regulated by the Department of Health. The WRA believes it is appropriate to extend the privilege to those engaged in catering services and that was the intent of those sponsoring HB 2680.

Sarah Boyle - EZ Foods Olympia

Ms. Boyle stated that she and her husband own a small catering company in Olympia called EZ Foods Olympia. They do not have an on premise restaurant nor do they have the interest in having a restaurant facility. They currently operate a commercial kitchen and operate as caterers and to this point they have not been able to offer their clients beer or wine service which affects their business at wedding, corporate events, etc. She thanked the Board for bringing this forward as this allows them to contribute to the county and the state and allows them to compete with their competition.

Rick Garza, LCB Director, came forward to clarify that he recently spoke with Representative Larry Springer, who sponsored the bill and it was his intent that this privilege would be given to those that cater food. He said he would like some time to address this proposal as it is different than what the original sponsor, Representative Springer, had in mind. He would like to communicate these changes with him.

PUBLIC HEARING 4E - Public Hearing on Wine & Cider Growlers & Multiple Licenses Under the Same Ownership at a Single Location

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3E 1-5). She provided a brief background noting that these rules are needed to implement the following legislation passed in the 2014 legislative session for SHB 1742 - Wine Growlers and SSB 6442 - Cider Growlers.

Ms. McCall noted that a winery licensee may hold a winery license and retail licenses at their winery premises, but WAC 314-24-161 would need to be revised to allow a winery to have a retail license at their additional location.

Proposed Changes

Revised Section: WAC 314-02-015 - What is a spirits, beer, and wine restaurant license? Added language that a licensee holding an endorsement to sell kegs of malt liquor can also sell cider for off-

premises consumption in a sanitary container brought to the premises by the purchaser or furnished by the licensee and filled at the tap by the licensee at the time of sale.

Revised Section: WAC 314-02-041 - What is a hotel license? Added language that a hotel licensee can sell cider for off-premises consumption in a sanitary container brought to the premises by the purchaser or furnished by the licensee and filled at the tap in the restaurant area by the licensee at the time of sale.

Revised Section: WAC 314-02-045 - What is a beer and/or wine restaurant license? Added language that a licensee holding an off-premises endorsement can sell cider for off-premises consumption in a sanitary container brought to the premises by the purchaser or furnished by the licensee and filled at the tap by the licensee at the time of sale.

Revised Section: WAC 314-02-070 - What is a tavern license? Added language that a licensee holding an off-premises endorsement can sell cider for off-premises consumption in a sanitary container brought to the premises by the purchaser or furnished by the licensee and filled at the tap by the licensee at the time of sale.

Revised Section: WAC 314-02-105 - What is a beer and/or wine specialty store? Added language that a licensee with an endorsement to sell beer in sanitary containers for off-premises consumption may also sell cider in sanitary containers brought to the premises by the purchaser or furnished by the licensee or manufacturer and filled at the tap by the licensee at the time of the sale.

Revised Section: WAC 314-20-017 - Brewery and microbrewery retail liquor licenses – Selling kegs and containers. Added language that a brewery or microbrewery holding a spirits, beer, and wine restaurant may sell cider for off premises consumption only in sanitary containers brought to the premises by the purchaser or furnished by the licensee and filled at the tap by the licensee at the time of the sale.

Revised Section: WAC 314-24-160 - Domestic wineries-Retail sales of wine on winery premises-Wine served without charge on premises-Spirits, beer and wine restaurant operation. Added language that a domestic winery may sell wine of its own production in kegs or sanitary containers brought to the premises by the purchaser or furnished by the licensee and filled at the tap at the time of sale.

Revised Section: WAC 314-24-161 - Domestic winery-Additional locations for retail sales only. Added language that an additional location may sell wine of its own production in kegs or sanitary containers brought to the premises by the purchaser or furnished by the licensee and filled at the tap at the time of sale. Added language that allows an additional location winery to also have a beer/wine restaurant at the additional location if they hold a beer/wine restaurant at their winery. Language includes the requirements that must be followed.

Chair Foster opened the public hearing and invited the first citizen to the podium to provide testimony. No one came forward for comment.

4. WEEKLY MARIJUANA LICENSING UPDATE

Becky Smith, Marijuana Licensing & Regulations Manager, provided the weekly marijuana licensing updates including the following highlights:

Producer/Processor Applications

- 217 Producer/Processor licenses have been issued
 - 160 Producer/Processor
 - 47 Producer
 - 10 Processor
- 17 licenses are pending payment
- Plant Canopy
 - Licensed - 2 M square feet
- 284 Producer/Processor applications have been referred to Enforcement for final inspection
 - 214 are complete
 - 2 need follow-up inspection
 - 19 are scheduled for inspection
 - 25 are waiting for applicant to finish build
 - 24 moving to enforcement awaiting schedule

Retail Applications

- 55 Retail licenses have been issued
- 5 are pending payment
- 15 retail applications have been referred to Enforcement for final inspection
 - 2 have been scheduled for inspection
 - 13 moving to enforcement awaiting schedule

Randy Simmons, LCB Deputy Director, came forward to discuss the 2M square feet plant canopy goal being met. He indicated that the canopy calculation was established in rule because the LCB was required to establish a canopy measure by the initiative. The determination was based on addressing 13% of the market place on day 1. The original amount of total canopy we assumed we would need was 8.5M. Mr. Simmons stated that LCB staff has drafted language increasing the 2M canopy limit. He said that would be brought to the Board next week.

5. NEW BUSINESS/OLD BUSINESS

No new or old business reported.

Chair Foster invited citizens to address the Board regarding any issue(s) related to LCB business.

Barry Sullivan - Citizen, Vancouver Washington

Mr. Sullivan stated that he is a small business owner from the retail side in the Vancouver, Washington area. He stated that he is number 12 in the marijuana retail lottery line noting there are 6 licenses for the Vancouver area. He asked if there was going to be a time limit requirement for the current lottery winners who have not yet opened a store noting he would like to have an idea when or if he or others might be in line for a potential opportunity to obtain a license? He believes that location challenges appear to be the problem with the current licensees.

Becky Smith, Marijuana Licensing & Regulations Manager, came forward and stated that her unit is preparing letters to send to the lottery winners noting they have 60 days to begin operations. Those letters should go out next week.

Mr. Sullivan was glad to hear the news. He also suggested that as the process moves forward and other lottery participants move up the line, that it would be helpful to give the 60 day window at the beginning of the process.

Chuck Ferrell - Redmond Ridge Liquor & Wine

Mr. Ferrell had questions regarding the Fair Trade Practices process:

Q: What kind of response has the LCB received regarding the Economic Surveys that were sent out?

A: Ms. Karen McCall came forward and stated that she received approximately 120 comments and almost all of them state that the rules as presented would cost them money because of split case fees. She is trying to clarify this concern as there is nothing in the rules that speaks to split case fees.

Q: He asked if any of the comments addressed the potential loss of employees and/or revenue?

A: Ms. McCall said that a few said they may lose employees and some said that they may lose revenue due to the split case fees.

Q: What steps did the Board take to ensure that the channel pricing rules were consistent with the federal antitrust laws and the state regulatory authority?

A: Ms. McCall said that the LCB reviewed the TTB Circular where they recognized that distributors and suppliers were pricing to on-premise retailers at a lower price as a marketing practice for products because that's where they introduced products to their customer.

Mr. Ferrell noted that on-premise vs off-premise are very different and he asked the Board consider this.

Jean Leonard - Washington Wine Institute

Ms. Leonard thanked LCB staff on the wine & cider growler proposal. She noted that many times a second location for a winery is their primary location and they appreciate the ability to obtain a restaurant license.

Cindy Zender - Total Wine & More

Ms. Zender also spoke in support of the rules for cider growlers and thanked LCB staff for developing them. She said they are working out very well.

ADJOURN

Chair Foster adjourned the meeting at 10:45.

Minutes approved this 24th day of SEPTEMBER, 2014



Sharon Foster
Board Chair



Ruthann Kurose
Board Member



Chris Marr
Board Member

Minutes Prepared by: Maureen Malahovsky, Board Confidential Secretary