



# Washington State Liquor Control Board

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## Washington State Liquor Control Board Meeting

Wednesday, December 17, 2014, 10:00 a.m.  
LCB Headquarters - Boardroom  
3000 Pacific Avenue SE, Olympia WA 98501

### Meeting Minutes

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#### 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, December 17, 2014. Member Chris Marr was also present. Member Ruthann Kurose was absent.

#### 2. APPROVAL OF MEETING MINUTES

**MOTION:** Member Marr moved to approve the December 3, 2014, meeting minutes and the December 10, Meeting Minutes (Business Advisory Council Work Session)

**SECOND:** Chair Foster seconded.

**ACTION:** Motion passed unanimously.

#### 3. ACTION ITEMS (A-C)

##### **ACTION ITEM 3A - Board Approval to File (CR 101) for Sports Entertainment Facility Rules**

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3A 1-2). She provided a brief background noting that this rulemaking is the result of stakeholders requesting the Board develop rules to create an enhanced operating plan that would allow a sports entertainment facility licensee to provide additional alcohol sales and service areas within the licensed facility.

##### Timeline

December 17, 2014	Board was asked to approve filing the pre-proposal statement of inquiry (CR 101)
January 7, 2015	Code Reviser will publish notice - LCB will send notice to rules distribution list
February 1, 2015	End of written comment period

February 11, 2015	Board will be asked to to approve filing the proposed rules (CR 102 filing)
March 4, 2015	Code Reviser will publish notice - LCB will send notice to rules distribution list
March 25, 2015	Public hearing will be held
March 25, 2015	End of written comment period
April 1, 2015	Board will be asked to adopt rules
April 1, 2015	Agency to send notice to those who commented
April 1, 2015	Agency will file adopted rules with the Code Reviser (CR 103)
May 2, 2015	Rules will be effective (31 days after filing)

Ms. McCall then requested approval from the Board to file proposed rules.

**MOTION:** Member Marr moved to approve filing (CR 101) for Sports Entertainment Facility Rules.

**SECOND:** Chair Foster seconded.

**ACTION:** Motion passed unanimously.

**ACTION ITEM 3B - Board Approval to File Supplemental (CR 102) for Fair Trade Practices Rulemaking**

Karen McCall, Agency Rules Coordinator, began the briefing with materials (HANDOUTS 3B 1-4). She provided a brief background noting that on July 23, 2014, she posted a Small Business Economic Impact Survey with supplemental proposed rules for fair trade practices on the Liquor Control Board website. An email was sent to all stakeholders on the rules distribution list requesting they complete the survey and return to the Board by August 8, 2014. Washington Restaurant Association requested the Board accept responses to the survey until August 24, 2014, and the Board agreed to do so. 146 survey responses were received.

Timeline

December 17, 2014	Board was asked to approve filing the pre-proposal statement of inquiry (CR 101)
January 7, 2015	Code Reviser will publish notice - LCB will send notice to rules distribution list
January 28, 2015	Public hearing to be held
January 28, 2015	End of written comment period
February 4, 2015	Board will be asked to adopt rules
February 4, 2015	Agency will send notice to those who commented
February 4, 2015	Agency will file adopted rules with the Code Reviser (CR 103)
March 7, 2015	Rules will be effective (31 days after filing)

Ms. McCall then requested approval from the Board to file supplemental CR 102.

**MOTION:** Member Marr moved to approve filing the Supplemental (CR 102) for Fair Trade Practices Rulemaking.

**SECOND:** Chair Foster seconded.

**ACTION:** Motion passed unanimously.

**ACTION ITEM 3C - Request to Hold a Work Session on the Alcohol Impact Areas (AIA) Rulemaking January 14, 2015 (During the Board Meeting)**

Karen McCall, Agency Rules Coordinator, requested that the Board hold a work session during the January 14, 2015, Board meeting to obtain stakeholder comments on Alcohol Impact Areas (AIA's).

Chair Foster noted that this will benefit cities and the industry.

The Board agreed to hold a work session during the January 14, 2015, Board meeting.

**4. MARIJUANA LICENSING UPDATE**

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

Producer/Processor Applications

- 338 Producer/Processor licenses have been issued
  - 246 Producer/Processor
  - 66 Producer
  - 26 Processor
- 17 licenses are pending payment
- 24 moved to enforcement for inspection
- 41 are waiting for applicant to build/hold

3,460,533 M square feet approved for plant canopy

Change in Applications

- Change in operating plan - assigned: 45 completed: 9
- Change in governing people - assigned: 14 completed: 2
- Add a financier - assigned: 5 completed: 2

Retail Applications

- 94 Retail licenses have been issued
- 3 are pending payment
- 11 moved to enforcement for inspection

Chair Foster requested that Ms. Smith provide a list of all Seattle retail stores that have opened their doors and are fully operating. Ms. Smith said she would be happy to provide that list.

Member Marr also asked Ms. Smith to provide a brief update on the secondary lottery process.

Ms. Smith noted there are seven qualified applicants scheduled to go through the lottery process today.

## 5. EMPLOYEE ANNOUNCEMENTS

### State Service Recognitions - Presented by Mike Kashmar, Chief Financial Officer

Mr. Kashmar recognized Peter Corier, Marijuana Examiner, for five years of dedicated service noting that Mr. Corier joined the financial team from the licensing division in May noting that he was the first marijuana examiner in the state. He was raised in Olympia received his Bachelor's degree in communications from Brigham Young University in Idaho and then his Master's degree in public administration from the Evergreen State College. Mr. Corier is an Eagle Scout and in his spare time enjoys playing with his two daughters, going to the beach, watching TV, reading comic books, playing board games, and dressing up like the Joker.

## 6. NEW BUSINESS/OLD BUSINESS

No new or old business was reported.

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

### Brad Tower - Washington Liquor Store Association (WLSA)

Mr. Tower commented on the action taken on fair trade practices. He noted that not all of the WLSA comments were included in the changes. He added that they are seeking relief from predatory practices in the market place and they plan to continue those discussions. Mr. Tower also discussed concerns regarding split case fees and volume discounts for delivery to multiple locations.

Member Marr stated that there have been constructive discussion and are worth continuing.

### Andrew Seitz - Dutch Brothers Farms

Mr. Seitz provided a legislative packet he prepared (CITIZEN HANDOUT 1). He stated that the Washington cannabis industry is headed for economic implosion. He suggested that the market is currently inverted and unstable including the tax structure. He stated that Washington is currently producing more recreational cannabis than the recreational market can absorb and that medical marijuana stores are currently operating as recreational stores. He suggested that there are far too few recreational stores as there are producer processors. He also wants to see a level playing field.

Member Marr noted that the tax structure may have been over ambitious but it might be too early to tell. He added that many I-502 stakeholders are currently addressing the tax issue. He also suggested that Mr. Seitz approach the Legislature. He thanked Mr. Seitz for his comments.

Chair Foster said his comments were very good and suggested he reach out to other marijuana groups. She added that if they do approach the Legislature they should approach as a unified voice.

### John Guadnola - Executive Director of Association of Spirits and Wine Distributors

Mr. Guadnola expressed disappointment that the CR 101 for fair trade practices is just now being submitted as this has been in play for over a year noting that the market needs these issues to be resolved. He also stressed that channel pricing is not a predatory practice and they are working within the law. In addition, he addressed multiple deliveries and volume discounts. There are many distributors that are under the radar in their activities.

Member Marr noted that the onus is on the LCB to educate on these complex issues.

John Martin - Ocean Shores Former State Liquor Store Owner

Mr. Martin noted that his store supports a rural area of the state so they are an important option for the region. He indicated that restaurants are a vital part of his business (30%). He expressed concern regarding channel pricing, which is controlled by distributors noting that the pricing makes it almost impossible to compete. He is forced to buy from distributors as they carry the needed brands. He suggested that the current use of channel pricing is discriminatory and he is counting on the Liquor Control Board to address this issue.

Jan Gee - Washington Food Industry Association

Ms. Gee stated that they have not been overly involved in the fair trade practices discussions but she did want to express that there seem to be some misconceptions about the rule. She noted that her industry has felt significant increases in minimum orders which began as soon as fair trade discussions were started. The big chains are receiving much better discounts.

Maribelle Vida - Former State Liquor Store Owner (Seattle)

Ms. Vida asked for fair trade practices across the board and suggested that channeling is an unfair practice. She said that the industry does not understand why the Board made this decision and that there is a disconnect in the messaging. She explained that the former state owned liquor stores are struggling noting that the ones that haven't yet closed their doors are waiting for their licenses to expire so they are able to sell them. She expressed disappointment that channel pricing was created by the Board after I-1183 passed and the Board needs to understand that their decision created adverse problems and needs to be addressed. She asked that the Board stand behind the former state liquor stores.

Member Marr appreciated her comments and agreed that this is a huge hill to climb.

Director Garza added that channeling could not have occurred if the initiative had not repealed the ban on volume discounts. For 80 years volume discounts were not allowed and the idea behind the initiative was to create a level playing field.

Citizen (Did not state name)

He expressed concern about volume discounts stating that most formerly state-owned liquor stores purchase approximately 20 to 40 cases at a time. The discount level that they would like hit is 28 cases per delivery but the next discount level is 1,000 cases. He stated that the two options that qualify for volume discounts are 28 cases or 1,000 cases - 50, 100 or 200 cases are not an option. He stated that purchasing 1,000 cases is not a cost effective option for most stores.

**ADJOURN**

Chair Foster adjourned the meeting at 11:10.

Minutes approved this 7th day of JANUARY, 2014



Sharon Foster  
Board Chair



Ruthann Kurose  
Board Member



Chris Marr  
Board Member

Minutes Prepared by: Maureen Malahovsky, Confidential Secretary to the Board