



Washington State  
Liquor and Cannabis Board

# Annual Report

## Fiscal Year 2016

*Vision*

*Safe communities for Washington State*

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*Governor Jay Inslee speaks with WSLCB Officer Doug Jones at the 2016 Public Service Recognition Week event.*

*Date taken: 5/4/2016, Location: Olympia, WA*

*Photo Credit: Chase Gallagher*

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## Washington State Liquor and Cannabis Board

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# Message from the Board

Dear Citizens of Washington,

It is our pleasure to present to you the Fiscal Year 2016 Liquor and Cannabis Board (LCB) Annual Report. Throughout this report you will find details about the agency's accomplishments and operations while carrying out its mission throughout Fiscal Year 2016 (July 1, 2015 – June 30, 2016).

## Highlights of FY 2016

Board Member transitions in FY 2016 and just recently included the departure of two Board members and the appointment of a new one. Board Member Russ Hauge departed in March 2016 to take a full-time position with the Council of State Governments Justice Center. Board Member Ruthann Kurose retired in October 2016 after serving nine years on the Board. While the Board lost two valuable members this past year, it is benefitting from the appointment of Seattle-based businesswoman Ollie Garrett. Ms. Garrett was appointed by Governor Inslee in August 2016. A third Board Member is expected to be appointed soon to fill the remaining vacancy.

As it has for the last several years, the trend of groundbreaking work by agency employees continued in Fiscal Year 2016.

- Working cooperatively with the state Department of Health, the LCB successfully implemented legislation that merged the unregulated medical marijuana market with the tightly regulated recreational market.
- The agency collected and distributed over \$343 million in revenue to fund essential state and local services.
- Using Lean principles and practices, the agency found several efficiencies and cost savings that benefit our customers and employees. Some highlights can be found within the pages of this report.

## Looking Ahead

We are enthusiastic about the work ahead and are currently reviewing the first generation of cannabis regulation and the overall business environment. In looking at additional process improvement opportunities, we are also increasing our transparency and communication with stakeholders such as licensees, state and local governments, tribes and the general public. Plans for leveraging technology are underway to have two-way conversations with our stakeholders and the public as well as innovative solutions to better serve our customers. Some highlights include:

- The agency will advance the Systems Modernization Project that will replace our legacy licensing and enforcement computer systems. This unique public-private partnership paid for by a temporary fee on agency-issued licenses, will be a win-win for our employees and licensees by increasing efficiency, reporting capability, and ultimately transparency.
- The agency plans regular virtual forums with our licensees and stakeholders using software that will allow participants to view presentations and engage LCB staff from a computer or mobile device.
- The agency is looking into software and streaming video to allow the public to testify or otherwise participate in Board meetings without incurring travel time and expense.

The Board and its employees are proud of the public safety contribution we make to the citizens of Washington. For more information regarding the LCB and current issues, please visit our website at [lcb.wa.gov](http://lcb.wa.gov).

Sincerely,



Jane Rushford  
Board Chair



Rick Garza  
Director

# Board/Director Biographies

The Board is composed of three members appointed by the Governor to six-year terms. Board members are responsible for hiring the agency's director, who manages day-to-day operations. The Board holds regular public meetings and work sessions with stakeholders, makes policy and budget decisions, and adjudicates contested license applications and enforcement actions on licensees.

## Jane Rushford

### – Board Chair

Jane Rushford was appointed by Governor Jay Inslee in January 2015. Her commitment to collaboration and transparency has been recognized throughout her years of state service in executive capacities at the departments of Enterprise Services, General Administration and Natural Resources. She also served as a staff administrator at the state House of Representatives and began her state career in the legislative and federal documents section of the Washington State Library.

Jane is the recipient of the Governor's Award for Leadership in Management, Commissioner of Public Lands Award for Contributions to the Health of Washington's Natural Resources and Governor Gregoire's Award for Community Partnership. She has also contributed to the work or boards of several not-for-profit organizations including Girl Scouts of Western Washington and The Evergreen State College Board of Governors.



## Ollie Garrett

### – Board Member

Ollie A. Garrett, of Kirkland, was appointed to the Liquor and Cannabis Board effective August 15, 2016. She is president and CEO of PMT Solutions, a Bellevue-based collection company that provides comprehensive check collection and receivable management services for businesses.

Garrett is serving her fifth term as president of Tabor 100, an association working to further economic power, educational excellence and social equity for African-Americans and the community at large. Garrett is an at-large appointee of the King County Civil Rights Commission, co-chair of the Office of Minority and Women's Business Enterprises and an appointed board member of the Washington State Community Economic Revitalization Board, the Employment Security Advisory Board and the Washington Economic Development Finance Authority. She is also a member of the Rainier Vista Boys & Girls Club Advisory Board.



## Vacant

### – Board Member

## Rick Garza

### – Director

Rick Garza has been with the Liquor and Cannabis Board since 1997. During Rick's career with WSLCB he has also held the positions of Legislative and Tribal Liaison, Policy Director and Deputy Director. Prior to joining the LCB, Rick served 13 years as a staff member for the Washington State Legislature, including five years with the Washington State Senate and eight years with the state House. His legislative assignments included Policy Analyst in the state Senate, House of Representatives Staff Director, and adviser to House and Senate leadership.



# Vision, Mission, Goals and Values

---

## **Vision**

Safe communities for Washington State

## **Mission**

Promote public safety and trust through fair administration and enforcement of liquor, tobacco and marijuana laws

## **Goals**

Ensure the highest level of public safety by continually improving and enforcing laws, regulations and policies that reflect today's dynamic environment

Educate and engage licensees, the public and other stakeholders in addressing issues related to our mission

Maintain and value a highly-motivated, competent and diverse workforce

Build a culture that inspires and fosters excellence

## **Values**

Respect and courtesy

Professionalism

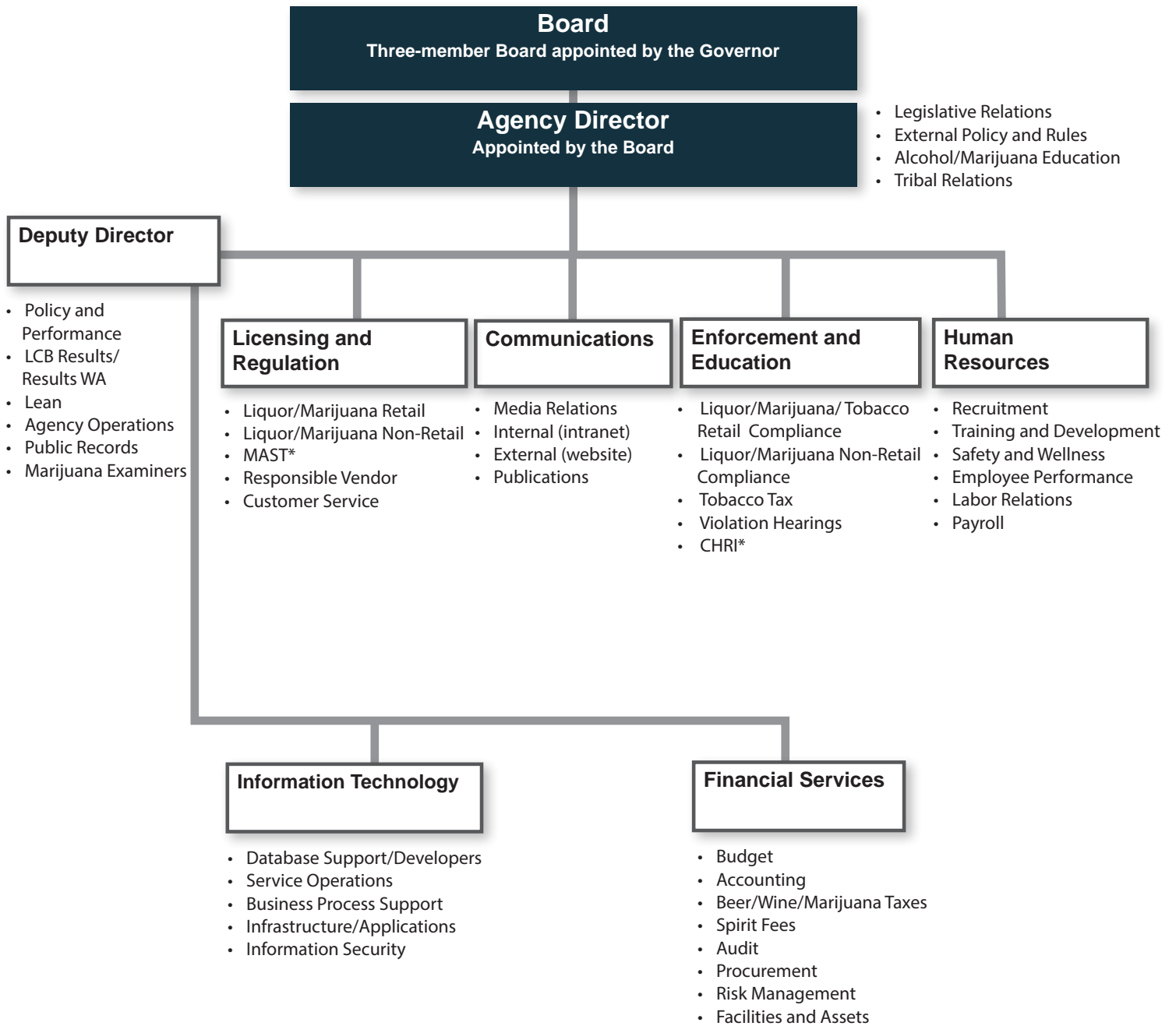
Open communication

Accountability and integrity

Continuous improvement and meaningful results

Customer focus

# Organizational Structure



\*MAST: Mandatory Alcohol Server Training  
\*CHRI: Criminal History Records Information

# Enforcement and Education

## Enforcement and Education Division

The Enforcement and Education Division is responsible for enforcing state liquor, tobacco and marijuana laws and regulations to promote public safety. Officers also provide education to licensees, communities and local law enforcement agencies.



*Officer Lucy Peterson and Sergeant Matt Murphy meet with a licensee*

### FY 2016 Staffing Chart

- 150 Staff
  - 1 Chief
  - 1 Deputy Chief
  - 1 Commander
  - 5 Captains
  - 21 Lieutenants
  - 92 Officers
    - 1 Evidence Coordinator
    - 1 Hearing Officer
    - 1 Management Analyst
    - 1 Program Manager
    - 2 Criminal Records Coordinator
  - 10 Support Staff
    - 3 Investigative Aides
    - 1 FDA Supervisor
    - 1 FDA Program Specialist
    - 8 FDA Inspectors

### Retail Enforcement

Retail Enforcement strives to protect and serve the public by ensuring the legal and responsible sale of alcohol, tobacco, and marijuana at retail businesses. Retail enforcement's primary focuses are on youth access, over service, conduct, and license integrity issues. Officers have arrest powers and carry out enforcement operations such as compliance checks, undercover operations, premises checks, complaint investigations, and technical assistance visits to ensure licensees are complying with state liquor, tobacco and marijuana laws.

When a business violates a law, officers consider the totality of the circumstances and are empowered to determine an appropriate course of action to correct non-compliance. Those courses include issuing administrative violation notices, warning notices, and/or criminal arrests and citations. Administrative violation notices can result in a fine, temporary license suspension or both.

In cases of repeat violations, a license can be revoked by action of the Board. The Board may also impose an emergency suspension for significant public safety issues, resulting in a license suspension of up to 180 days.

|  |
|--|
| <b>Region 1 – Southwest Washington</b>           |
| Regional Office: Tacoma                          |
| 4,482 Licensees / 17 Enforcement Officers        |
| <b>Region 2 – King County</b>                    |
| Regional Office: Federal Way                     |
| 4,412 Licensees / 17 Enforcement Officers        |
| <b>Region 3 – Northwest Washington</b>           |
| Regional Office: Mount Vernon                    |
| 3,533 Licensees / 12 Enforcement Officers        |
| <b>Region 4 – Central and Eastern Washington</b> |
| Regional Office: Spokane                         |
| 3,482 Licensees / 15 Enforcement Officers        |

# Enforcement and Education

## FY 2016 Key Enforcement Activities

|  |
|--|
| 79,661 officer contacts                |
| 25,080 liquor premises checks          |
| 5,760 tobacco premises checks          |
| 2,051 complaint investigations         |
| 4,598 licensee support visits          |
| 3,276 liquor compliance checks         |
| 1,987 tobacco compliance checks        |
| 1,869 enforcement actions              |
| 120 responsible sales training classes |
| 811 online responsible sales classes   |
| 690 surveillance hours                 |

## Non-Retail Enforcement

The Non-Retail Enforcement unit primarily focuses on the manufacturing, importing, wholesaling and distribution of alcohol products. Officers have the same scope of authority as retail and marijuana enforcement, but focus on educating licensees on the complexities of money's worth, undue influence, contracts and agreements, advertising, promotions and special events. Due to the complexity of non-retail laws and rules, officers conduct individual or small group briefings on liquor laws and participate in industry specific education to stakeholder groups to ensure businesses have the information needed to be successful.

As with retail enforcement, officers are empowered to determine an appropriate course of action to correct non-compliance, which can include issuing administrative violation notices, warning notices and/or criminal arrests and citations. Administrative violation notices can result in a fine, temporary license suspension or both.

| Non-Retail Enforcement                   |
|--|
| Statewide Unit                           |
| 1,997 Licensees / 6 Enforcement Officers |

## Marijuana Enforcement

A non-retail enforcement team of 16 Liquor and Cannabis Board enforcement officers with support staff regulates licensed producers and processors. The unit's focus is the inspection of license applicants, education for new producers and processors, security and traceability system compliance and ensuring licensed operations are conducted by the true party of interest.

Officers conduct youth access compliance checks and monitor traceability and transportation compliance. Each licensed and operating retail location received at least three compliance checks by the end of the fiscal year. Youth access compliance rates for the first full year of compliance checks were 90 percent.

| Marijuana Enforcement                     |
|---|
| Statewide Unit                            |
| 1,208 Licensees / 15 Enforcement Officers |

## Tobacco Tax

The 2015/16 Biennium Operating Budget funded a Tobacco Tax unit of 11 commissioned full time employees inside the Washington State Liquor and Cannabis Board. Previously, this had been a general responsibility of all officers in addition to other duties. The dedicated unit will pursue strategies to reduce the amount of smuggled, contraband, and otherwise untaxed cigarette and tobacco products in the state. The unit's funding started on October 1, 2015.

The unit will also maintain state and federal partnerships, including dedicated tobacco tax federal task force members; educate wholesalers, distributors and retail licensees on tobacco laws and rules.

| Tobacco Tax Enforcement                   |
|---|
| Statewide Unit                            |
| 6,157 Licensees / 10 Enforcement Officers |



# Enforcement and Education

## Areas of Focus in FY 2016

### Liquor Compliance Efforts

To ensure compliance and prevent sales of liquor to persons under 21 years of age, officers focus on compliance checks at all locations with complaints, areas with below average compliance rates and other general checks across the liquor industry. Officers conduct premises checks and formal classes at many locations to support liquor industry stakeholders with resources and education to ensure compliance. This program is a vital part in the agency's efforts to curb youth access to liquor and promote responsible sales and service.

The Enforcement and Education division also utilized Place of Last Drink data from DUI reports to focus efforts on reducing incidents of overservice and reducing impaired driving activity from licensed locations. Officers conducted undercover checks and general premises checks to address this priority. The top 20 reported businesses with the highest DUI referrals in FY 16 had an average of 18 incidents which was a 12 percent decrease from the FY 15 averages. This marks a three year trend of reduced incidents at these locations.



Chief Justin Nordhorn congratulates Officer Dylan Wiltsey on his graduation from the law enforcement academy

### Educational Efforts

Applicants are required to review liquor law information prior to new license approval. In the past applicants would choose from 13 different PowerPoint presentations corresponding to their license type. Presentations were about 80 slides, and needed updates any time rule and law changes occurred. Enforcement administrative and field staff analyzed the process and identified problems.

In February 2015, liquor license applicants had a new process to gain relevant pre-license information. Applicants view one of two different video presentations based on license types for on or off premises businesses. Videos are roughly 8-10 minutes in duration, reducing the time spent by the applicant in review the educational material. Verification of process participation was automated reducing administrative time and cost.

### Top Public Safety Violation Types in FY 2016

Violations can result in Administrative Violation Notices (AVNs) or warnings. There were 665 violations in the top three categories, with 618 AVNs issued resulting in fines or license suspensions.

#### Sales or service to minors (liquor)

- 525 violations
- 503 AVNs issued
- 22 warnings issued

#### Sales to apparently intoxicated persons

- 83 violations
- 48 AVNs issued
- 35 warnings issued

#### Sales or service to minors (marijuana)

- 57 violations
- 57 AVNs issued
- 00 warnings issued

## Enforcement and Education



*Officers Beth Horne, Lucy Peterson and Sergeant Susan Anderson at the "Women in Law Enforcement Career Fair"*

Benefits of the implementation are an increase of quality and service, a less complex verification process, and efficiencies of resources and cost associated with this service.

### **Use of Analytical Tools**

Officers have access to geographical data and analysis and use this data in a targeted approach to enforcement actions and deployment. Officers and command staff utilize data such as compliance check rates, compliant types and locations, and POLD location data from DUI stops to focus limited resources on higher risk areas and locations statewide. Geographical spatial analysis will enhance resource deployment efforts by providing visual mapping and centralized location for data reference.

### **Food and Drug Administration (FDA) Tobacco Inspections**

The FDA re-awarded the WSLCB a tobacco inspection contract that had been originally adopted in 2010. Under federal authority, the WSLCB continued to conduct tobacco inspections aimed at federal regulation of the manufacture, distribution and marketing of tobacco products to protect public health.

The FDA Tobacco Inspection Program is comprised of 10 staff who maintain FDA-commission credentials and conduct tobacco inspections at licensed tobacco retailers in Washington State.



*Physical Fitness Evaluations for potential new officers*

# Licensing and Regulation

## Licensing and Regulation Division

The Licensing and Regulation Division is responsible for assessing, licensing, and maintaining liquor and marijuana licenses for retail, non-retail and distribution businesses. In FY 2016 Licensing issued 3,199 new licenses and worked with 18,918 liquor and businesses to update their existing license. Division employees:

- Determine if new and current businesses are qualified to hold a liquor or marijuana license;
- Regulate the production, importation, distribution and sale of spirits, beer and wine products;
- Review, assess, and issue updates to existing

liquor and marijuana businesses. Updates include (but are not limited to) changes in: operating plans, location, governing people, and endorsements;

- Provide oversight for the Mandatory Alcohol Server Training (MAST) program for workers who serve alcohol. In FY 2016, 41,264 MAST permits were issued to liquor servers;
- Provide education about off premise alcohol sales via the Responsible Vendor Program (RVP) to 1,816 businesses;
- Process special occasion license applications for 5,059 nonprofit organization events.

| New Retail Liquor Licenses Issued  |     |
|------------------------------------|-----|
| Beer and Wine Restaurants          | 457 |
| Beer and Wine Specialty Shops      | 73  |
| Catering                           | 08  |
| Grocery Stores                     | 296 |
| Hotels                             | 20  |
| Night Clubs                        | 09  |
| Spirits, Beer and Wine Restaurants | 501 |
| Snack Bars                         | 44  |
| Spirit Retailers                   | 87  |
| Taverns                            | 42  |
| Theaters                           | 08  |
| Other                              | 73  |

| New Non-Retail Liquor Licenses Issued     |     |
|---|-----|
| Farmer's Markets                          | 33  |
| Distributors                              | 38  |
| Distilleries                              | 21  |
| Microbreweries                            | 102 |
| Wine Shippers to Consumers                | 63  |
| Wineries                                  | 133 |
| Approval to sell out of state merchandise | 174 |
| Other                                     | 19  |

|         | Over 16,000 Liquor Licensees in FY 2016 |                                |                        |        |       |           |       |        |
|---------|---|--------------------------------|------------------------|--------|-------|-----------|-------|--------|
|         | Grocery, Beer/Wine and Specialty Shops  | Spirits Retail Off/On Premises | Beer/ Wine On Premises | Tavern | Hotel | Nightclub | Other | Total  |
| FY 2012 | 5,424                                   | 5,932                          | 2,891                  | 223    | 138   | 77        | 379   | 15,064 |
| FY 2013 | 5,534                                   | 6,344                          | 2,938                  | 209    | 139   | 100       | 391   | 15,655 |
| FY 2014 | 5,540                                   | 6,407                          | 3,078                  | 215    | 152   | 109       | 527   | 16,091 |
| FY 2015 | 5,603                                   | 6,421                          | 3,306                  | 233    | 190   | 127       | 564   | 16,444 |
| FY 2016 | 5,632                                   | 6,735                          | 3,862                  | 246    | 190   | 129       | 832   | 17,626 |

WSLCB Licensing and Regulation Division

# Licensing and Regulation

## Liquor Licensing

The Liquor Licensing Unit maintained over 17,000 liquor licenses in FY 2016. Liquor licensing is broken into two sections: Retail and Non-Retail Licensing.

Retail licenses include establishments that sell alcohol for both on and off premises consumption including:

- Restaurants
- Entertainment facilities
- Hotels
- Grocery stores
- Spirits retailers
- Nightclubs

The Non-Retail Unit licenses:

- Manufacturers,
- Importers,
- Wholesalers
- Distributors of alcohol products

During the fiscal year, Retail Licensing issued 1,618 new licenses and Non-Retail Licensing issued 583 new licenses. Over 55 percent of liquor licenses are issued within 60 days of application.

## Marijuana Licensing

In FY 2016 the Marijuana Licensing Unit processed 1,292 marijuana applications; 525 retail and 767 non-retail (231 retail and 514 non-retail were new licenses).

The Marijuana Unit processes and issues three marijuana license types:

- Producers: grow marijuana for sale to other marijuana businesses.
- Processors: process, package and label marijuana and marijuana infused products for sale to marijuana retailers.
- Retailers: sell marijuana, marijuana infused products and marijuana paraphernalia in retail outlets to adults customers.

## Customer Service

The Customer Service Unit responds to over 3,000 phone calls a month, issues permits for special occasions, raffles and other events where alcohol is served. In FY 2016, the Customer Service Unit issued 5,923 special occasion licenses and permits. It also assisted the licensing units to process more than 18,000 marijuana and liquor licenses.



*Marijuana Licensing Unit*

# Licensing and Regulation

## Education and Outreach

The Education and Outreach Unit provides Responsible Vendor Program (RVP) training to off-premises liquor vendors. RVP is a free, self-monitoring program designed to help retailers adopt and enforce best practices to ensure liquor is sold responsibly. This program has been especially successful in smaller retail beer and wine sellers.

- 92 percent of liquor applicants were satisfied with services received.
- 87 percent of marijuana applicants were satisfied with services received.



Sergeant Jackie Eliason, Susan Harrell, Kim Sauer and Officer Alex Everson conduct community outreach

Retailers participating in the RVP who meet all of the program requirements may be eligible to receive a reduced sanction from the WSLCB if they are cited for selling spirits to a minor. Retailers could also potentially increase their protection against civil actions in third party liability lawsuits involving minors or apparently intoxicated persons.

## Customer Satisfaction Survey

The Licensing Division sends a customer satisfaction survey for every license issued. That feedback is used to improve the licensing process. Ten percent of new applicants responded to the survey in fiscal year 2016. Of the respondents 90 percent said that they were either extremely satisfied or moderately satisfied with the licensing services they received from the WSLCB.

## Compliance Rates Comparison for Off Premises Beer and Wine Retailers

|         |         |     |          |
|---------|---------|-----|----------|
| FY 2016 | 85%     | 88% | 85%      |
| FY 2015 | 82%     | 93% | 83%      |
|         | Non-RVP | RVP | Overall* |

\*Overall = Weighted Average

## Compliance Rates Comparison for Off Premises Spirits Retailers

|         |         |     |          |
|---------|---------|-----|----------|
| FY 2016 | 90%     | 94% | 92%      |
| FY 2015 | 93%     | 95% | 94%      |
|         | Non-RVP | RVP | Overall* |

\*Overall = Weighted Average



Online Responsible Alcohol Sales Training Course home page.

## Alcohol and Marijuana Education

The Alcohol and Marijuana Education program supports the public safety mission of the agency by addressing the prevention of underage drinking and marijuana use, misuse of alcohol and marijuana by adults and related harms. The WSLCB works with other agencies and statewide organizations to coordinate efforts and align work toward the common goal of healthy and safe communities for all Washington's citizens.

The legalization of marijuana in 2012 and the integration of the previously unregulated medical marijuana market in 2015 have necessitated a primary focus on marijuana education and policy work in this program. The Public Health Education Liaison has participated in the development of rules, produced educational materials, given presentations, and worked collaboratively with prevention and public health professionals across the state.

### Educating and Engaging

Information and resources for marijuana and alcohol education/prevention are provided through in-person presentations, webinars, social and traditional media, and responses to individual requests. In FY 2016:

- Provided 19 presentations for local, state, national, and international groups.
- Responded to over 220 requests for information.
- Continued to distribute "Marijuana Use in Washington State: An Adult Consumer's Guide" to new marijuana retail stores and make the copy available for continued use by retailers.

### Working Together, Maximizing Resources

Addressing and preventing underage drinking and marijuana use requires the combined efforts of communities, schools, families, and individuals. Multiple government and statewide organizations work together to determine strategies, develop and distribute resources, and provide mentoring and support to communities.

Much of this collaborative work is accomplished through the Washington Healthy Youth Coalition, or WHY. The WHY Coalition engages representatives from behavioral health, treatment, public health, law enforcement, education, prevention-based coalitions and others to coordinate efforts, avoid duplication and maximize resources. The Public Health Education Liaison of the Liquor and Cannabis Board is co-chair of the coalition and serves on the Communication and Policy workgroups. These workgroups serve as a critical link to the achieving the goals of the coalition through implementation of strategies.

Other collaborative efforts include participation in the WA Healthy Youth Survey Planning Committee, the Strategic Prevention Enhancement Consortium, the WA Impaired Driving Advisory Council, and the Marijuana Interagency Group.

A sampling of the results of these collaborative efforts included the implementation of a statewide media campaign (led by the WA State Department of Health), updating and expansion of the StartTalkingNow.org website, the addition of new tools for use by prevention coalitions and a successful 2015 Washington State Prevention Summit.

*2016 Revised Public Outreach Brochure: Marijuana Use in Washington State, An Adult Consumers Guide*



# Agency Performance/Lean Efforts

## Agency Performance

### Results Washington

In 2013, Governor Jay Inslee announced the launch of Results Washington which combines the best of the state's previous performance accountability efforts with an expanded Lean management initiative involving all state agencies.

This is the primary method used by the Governor to implement his vision, mission and goals for building a working Washington. The key goal areas include:

- World Class Education
- Prosperous Economy
- Sustainable Energy and a Clean Environment
- Healthy and Safe Communities
- Efficient, Effective and Accountable Government

During FY 2016, Results Washington continued to evolve as the goal councils reviewed performance result progress for nearly 200 metrics.

### Goal Council Teams

Goal Council teams are made up of state agency directors. Agency performance results are reviewed monthly and shared with the general public. Director Rick Garza represents the WSLCB on the Goal 5 team covering efficient, effective, and accountable government. As part of this goal all state agencies are expected to report on areas such as timely delivery of services, customer satisfaction, cost-effective government (including Lean process improvement) and data transparency.

The WSLCB continues to track customer satisfaction and/or timeliness results. Nearly 90 percent of those surveyed reported that they were "very satisfied" with the services provided by licensing employees. The agency participates in reports on license application completion time, employee culture and survey results and contributed data on enterprise metrics such as energy use and fuel consumption.

WSLCB is also represented on the Goal 4 team addressing Healthy and Safe Communities. This team works on topic areas such as preventing youth access to alcohol, marijuana and tobacco and traffic fatalities due to alcohol and drugs.

During the past year, Chief Justin Nordhorn presented on the agency's use of Place of Last Drink data reported by individuals during DUI stops. This information identifies liquor licensees for follow-up to ensure that over-service policies and procedures and training are in place.

### LCB Results

LCB Results is the agency's long-standing performance program. Monthly sessions are held involving senior leaders and program staff to address topics such as licensing and permit trends and processing, enforcement and education, licensee outreach, human resources, IT services, risk management, budget and a variety of administrative support functions. Leaders and key staff routinely discuss data trends, program targets and results, identify and solve problems and track significant follow up activities.

Division-level results sessions are also regularly held to address these and other topics giving key program and unit staff the opportunity to participate in the continuous review and discussion of program results.

## Lean Efforts

### Lean@LCB

The Lean@LCB program works to promote and support a culture of employee empowerment, customer driven, value-added work, scientific problem solving and process improvement, based on Lean principles and mindsets. It was created to foster an agency-wide mindset and culture shift which includes leadership training, employee idea submission, proposal scoping criteria, standardization of metrics, change management, status reporting and ensuring alignment with the agency's strategic goals and customer values.

During FY 2016, the Lean Program supported agency modernization efforts by developing current state maps for our entire licensing, regulatory, enforcement and financial processes. The LCB Lean Champions facilitated the creation of over 109 process workflows. Future state mapping also began in FY2016 and will continue into FY2017. The maps will be critical in establishing requirements for the new licensing and enforcement case management system and translate the agency's business services into technical specifications.

The agency continued its partnership with the Department of Enterprise Services (DES) to further enhance the agency's culture, Lean thinking and daily practices. Utilizing DES Lean consultants as coaches, leadership challenged our executive management team to formally adopt and use problem solving tool methodology. In addition the partnership also focused on building team problem solving capability through mentoring by DES consultants.



## Key Lean Results

### *Local Authority Notification*

The LCB is required by statute to send out a notification to local municipal authorities of new license applications within their jurisdiction. This process involved printing and mailing a hard copy notification to the local authority (LA) and waiting the required 20 days for a response. Notices were sent via U.S. Mail; which used an abundance of time and resources, while other less expensive methods were available.

Staff chose to pilot an electronic notification process using a select number of municipalities to gauge customer acceptance. After the pilot program was deemed a success, statewide

implementation was completed in November 2015. This improvement resulted in quicker response time from the LA and decreased overall time for the license application process. By sending the notifications electronically, staff have achieved a time savings of over 120 hours per month.

### *Spirits System Accounting Module Enhancement*

The Accounting Enhancement Project for the Spirit Tax System was started because the system was miscalculating the penalties at the end of the month for licensees with an outstanding balance. Before the improvement project it took staff 52 hours per month to review and adjust computations for Spirits Licensee balance due letters.

Once the problems in the system were identified, technical fixes and enhancements were developed and implemented. The changes allow staff to easily look at the amounts on the balance report to determine any penalties that should be assessed. It has reduced the time spent reviewing balances and adjusting penalties for balance due letters from 52 hours to three hours per month.

### *Equipment Transfer Form*

The equipment transfer form has historically been problematic and normally not completed without errors, requiring rework and resubmission by staff. Data gathered by the team showed that only six percent of the forms submitted over the last year were accurate. After performing root cause analysis on the quality issues, the team decided to modify an established SharePoint list to include an automated entry form with drop down fields to limit free form entry fields.

Users from the divisions were encouraged to use the new automated form and provided good feedback that the process had been simplified. Since agency wide implementation of the new process, the equipment transfer forms are submitted accurately 86 percent of the time.



# Financial Statement

## Income and Expenses FY 2016

### Income

#### Liquor Income and License Fees (includes penalties)

|                                     |    |             |
|-------------------------------------|----|-------------|
| Spirit Fees                         | \$ | 129 million |
| Beer Tax                            |    | 31 million  |
| Wine Tax (not including assessment) |    | 25 million  |
| Liquor License Fees                 |    | 15 million  |
| Other Liquor Income                 |    | 0.1 million |

Total Liquor Related Income \$ 201 million

#### Marijuana Income and License Fees (includes penalties)

|                        |    |             |
|------------------------|----|-------------|
| Marijuana Tax          | \$ | 186 million |
| Marijuana License Fees |    | 3 million   |
| Other Marijuana Income |    | 0 million   |

Total Marijuana Related Income \$ 189 million

Total Tobacco Related Income \$ 0.1 million

Other General Fund Income \$ 0 million

**Total Income \$ 390 million**

### Expenses/Distributions

#### Operating Expenses

|             |    |            |
|-------------|----|------------|
| Licensing   | \$ | 5 million  |
| Enforcement |    | 13 million |
| General     |    | 16 million |

Total Operating Expenses \$ 34 million

#### Distributions/Appropriations

|                                       |    |             |
|---------------------------------------|----|-------------|
| Distributed to State/Local Government | \$ | 313 million |
| State Agency Appropriations           | \$ | 31 million  |

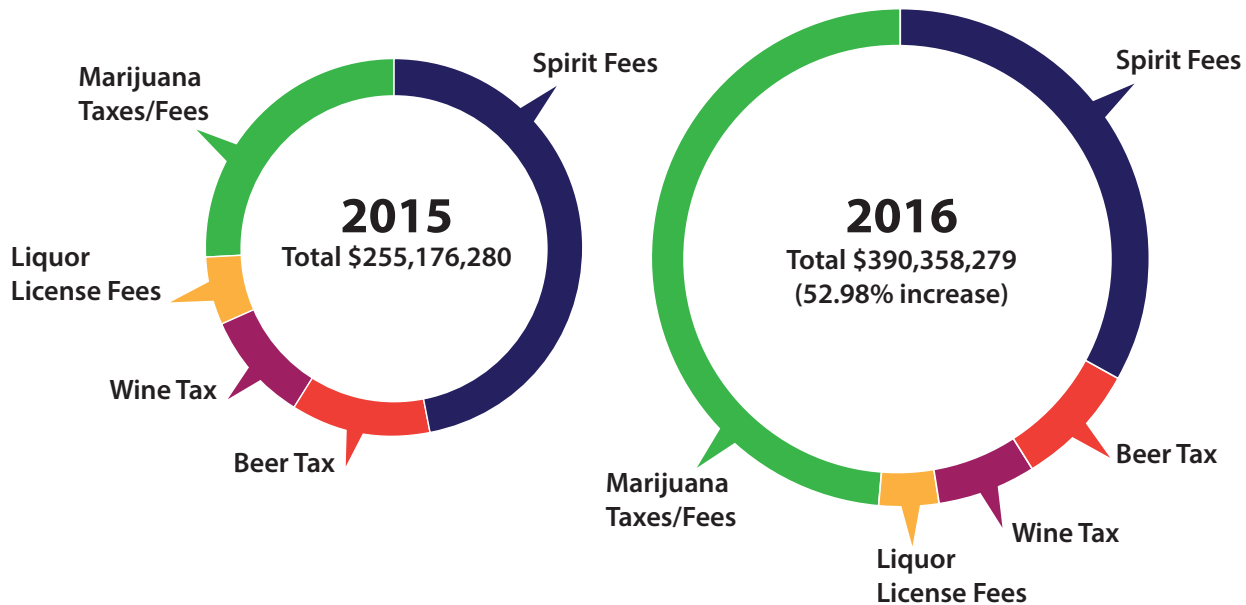
Total Distributions/Appropriations \$ 344 million

**Total Expenses/Distributions \$ 378 million**

# Revenue Distribution

|                      | FY 2015              | FY 2016              | Increase             |
|----------------------|----------------------|----------------------|----------------------|
| Spirit Fees          | 120,069,409          | 129,253,634          | 9,184,225            |
| Beer Tax             | 30,760,248           | 31,426,935           | 666,687              |
| Wine Tax             | 24,033,230           | 25,070,483           | 1,037,253            |
| Liquor License Fees  | 14,625,049           | 15,387,534           | 762,485              |
| Marijuana Taxes/Fees | 65,688,344           | 189,219,693          | 123,531,349          |
| <b>Total</b>         | <b>\$255,176,280</b> | <b>\$390,358,279</b> | <b>\$135,181,999</b> |

## Total Income Comparison Between 2015 and 2016



## Revenue Distribution/Appropriations

|                        | Liquor               | Marijuana            | Total                |
|------------------------|----------------------|----------------------|----------------------|
| General Fund           | 102,653,662          | 51,048,900           | 153,702,562          |
| Basic Health           |                      | 93,750,000           | 93,750,000           |
| Cities / Counties      | 49,480,019           | 6,000,000            | 55,480,019           |
| Education / Prevention | 8,153,093            | 19,482,387           | 27,635,480           |
| Research               | 1,623,139            | 1,045,000            | 2,668,139            |
| Other                  | 2,307,608            | 8,121,424            | 10,429,032           |
| <b>Total</b>           | <b>\$164,217,521</b> | <b>\$179,447,711</b> | <b>\$343,665,232</b> |

# Revenue Distribution

## General Fund - \$153.7 Million

|                        |   |
|------------------------|---|
| Liquor \$102.7 Million | Revenue sent to the state General Fund is used to provide much-needed additional resources for education and other critical state services. |
| Marijuana \$51 Million |   |

## Basic Health - \$93.8 Million

|                          |  |
|--------------------------|--|
| Marijuana \$93.8 Million | Revenue sent to the Basic Health Fund is used to provide necessary basic health care services to working persons and others who lack coverage. |
|--------------------------|--|

## Cities, Counties - \$55.5m

|                       |   |
|-----------------------|---|
| Liquor \$49.5 Million | Revenue sent to cities, counties and border areas provides increased flexibility for local government to meet community needs. Revenues are redistributed by statute to communities according to their population. Each local government entity is required to use a portion of the money for alcohol prevention and education. Money is also used to support local law enforcement and other programs. |
| Marijuana \$6 Million | Marijuana revenue sent to cities and counties is used for enforcement purposes.   |

## Education, Prevention - \$27.6m

|                          |  |
|--------------------------|--|
| Liquor \$8.2 Million     | For alcohol and substance abuse programs administered by the Division of Behavioral Health and Recovery including community-based initiatives to reduce underage drinking.   |
| Marijuana \$19.5 Million | To distribute public education materials about the health and safety risks of marijuana; to fund substance abuse programs and mental health services; to fund a marijuana education/public health program and grant programs for the prevention and reduction of marijuana use by youth. |

## Research - \$2.7m

|                       |   |
|-----------------------|---|
| Liquor \$1.6 Million  | Supports research on alcohol abuse and addiction at the University of Washington (UW) and Washington State University (WSU), and on wine and grape development at WSU. Money also is assigned to support the Washington Wine Commission, which is organized to promote and develop the state's wine industry.       |
| Marijuana \$1 Million | To administer the Healthy Youth Survey and contract with the Washington State Institute for Public Policy to conduct the cost-benefit evaluation of the implementation of Initiative 502; for the University of Washington (UW) and Washington State University (WSU) to fund research on effects of marijuana use. |

## Other - \$10.4m

|                         |   |
|-------------------------|---|
| Liquor \$2.3 Million    | For the Department of Commerce to contract with the Municipal Research Services Council.  |
| Marijuana \$8.1 Million | For the development of fire and building code provisions for marijuana processing/extraction facilities; grants to support Building Bridges programs; and for Health Care Authority funding for community health centers. |

## 2016 Enacted Liquor and Marijuana-Related Legislation



*Board meeting regarding warning symbols on marijuana packaging*

### **SB 6177 – Modifying Marijuana Research Provisions**

Allows the LCB to partner with a third-party entity to conduct the scientific review of marijuana research license applicants.

### **HB 2831 - Assisting Small Businesses Licensed to Sell Liquor in Washington State**

Assists former and state and contract liquor stores, to help them compete with other retailers:

- Creates a “wine retailer reseller endorsement” that existing beer and wine specialty shops can obtain allowing them to sell wine at retail in original containers to other retailers for onpremise consumption (typically restaurants and bars).
- Allows multiple wine and spirits licensees to jointly operate a warehouse facility for receipt and distribution of both wine and spirits for off-premise consumption.

- This space may be used to jointly negotiate a volume discount amongst the wine and spirits retailers participating in the shared warehouse facility or shared space within a retail location.

### **SB 6325 - Aligning the Alcohol Content Definition of Cider with the Federal Definition**

Supports the growing cider industry of Washington State, streamlining the state and federal regulations governing the industry by aligning the state definition with the federal definition.

### **SB 6341 - Concerning the Provision of Personal Services and Promotional Items by Cannabis Producers and Processors**

Allows producers and/or processors to provide retailers with branded promotional items of nominal value, allows the Washington State Liquor and Cannabis Board to investigate complaints or issues around the use and influence of promotional items, allows the production of materials to promote tourism, and allows producers and processors to provide personal services at a licensed retailer’s location to inform, educate or enhance customers’ knowledge or experience with the producer or processors products.

### **HB 2520 - Concerning the Sale of Marijuana to Regulated Cooperatives**

Provides a legal pathway for access to the starter plants registered patients and cooperatives need beginning in July 2016, by allowing licensed producers to sell directly to patients belonging to registered cooperatives.

### **HB 2584 - Concerning Public Disclosure of Information Submitted to the Liquor and Cannabis Board Regarding Marijuana Product Traceability and Operations**

This bill creates an exemption for some information contained on bank, IRA, and similar statements, as well as security related information, from public disclosure.

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**HB 2605 - Creating a Special Permit by a Manufacturer of Beer to Hold a Private Event for the Purpose of Tasting and Selling Beer of its own Production**

Allows Washington breweries to obtain a private tasting event privilege, like the one for wineries and distilleries, allowing private tasting and sales events involving beer of their own production.

**HB 2521 - Allowing for Proper Disposal of Unsellable Marijuana by a Licensed Marijuana Retail Outlet**

Creates an exception to the requirement that marijuana retailers (or employees) may not open or consume, or allow to be opened or consumed, any marijuana concentrates, useable marijuana, or marijuana infused product on the outlet premises in order to allow for disposal as authorized by the Board. This provides a legal pathway to regulate and oversee the disposal of unsellable products at licensed marijuana retail stores.

**ESSB 6470 - Addressing Provisions Concerning Wineries in Respect to the Licensing of Private Collections of Wine, Allowing Wineries to Make Sales for Off-Premises Consumption at Special Occasion Licensed Events, Modifying Special Occasion Licenses, and Making Certain Related Technical Corrections**

- Allows for wine to be sold by the bottle for on-premise consumption at a not-for-profit organization's event after obtaining a special occasion liquor license.
- A domestic winery may conduct wine

sales for off-premise consumption; to a consumer for later delivery date after the special-occasion licensed event; or to a consumer for delivery at a different location. The domestic winery may also enter into an agreement to share a portion of the proceeds with the special occasion licensee.

- Reinstates a practice that allows an individual or business to apply to the WSLCB for a special permit to sell a private collection of wine or spirits to another individual or business after obtaining a permit at least five business days before the sale.
- Technical clarifications and corrections are made removing language that referenced state-owned and contract liquor stores.
- Repealed an outdated statute authorizing discounted liquor sales by the LCB to specific entities.

**ESSB 6328 Concerning Vapor Products**

Contains multiple components to prevent access to vaping products by youth and address public safety and health regulations.

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# Washington State Liquor and Cannabis Board

## Mission

Promote public safety and trust through fair administration and enforcement of liquor, tobacco and marijuana laws.

[lcb.wa.gov](http://lcb.wa.gov)