Washington State
Liquor and Cannabis Board

December 2025

Washington State's Social Equity in Cannabis Program: Progress, Challenges, and Policy Options

A report submitted to the Washington State Governor and Legislature under Engrossed Second Substitute Senate Bill 5167, Section 147(7).

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Executive Summary

This report, requested under Washington State Engrossed Second Substitute Senate Bill 5167 Section 147(7) (Budget Proviso), reviews the Social Equity in Cannabis Program, which aims to promote license equity in the adult-use cannabis market for communities disproportionately harmed by the War on Drugs. The program began with Engrossed Second Substitute House Bill 2870 in 2020, under which 40 applicants received a preliminary letter of approval and five cannabis retail license holders with Title Certificates were eligible to pursue the retail licensing process under the Social Equity in Cannabis program. **As of Sept. 2025, about 25% (11) of all eligible social equity licenses have secured a location and 16% (seven) have reported sales data to the Liquor and Cannabis Board (LCB) in the first quarter of 2025.** This review includes an innovative artificial intelligence (AI)-supported analysis. This allowed LCB to efficiently complete this report within resources. Several barriers to success and potential options were identified.

Barriers to Success

- **Inability to secure a location** remains one of the largest barriers for eligible social equity license holders. This barrier is rooted in both regulatory and market conditions. There are current prohibitions in 81 cities and six counties across Washington State, which severely limit viable locations.[3]
- **Inadequate startup capital** is another challenge, particularly due to the limited financing options from the continued federal Schedule I status of cannabis. The Department of Commerce has attempted to alleviate some of these financial costs through the cannabis social equity grant program, which covered about half of estimated cannabis retail startup costs.[4-8]
- **Highly competitive markets** are also a challenge. Over half of the seven operational social equity retailers were below the minimum threshold for long-term economic sustainability in the first quarter of 2025. In contrast, less than a quarter of comparable non-social equity retail license counterparts were below the minimum threshold.[2,8]

Policy Options

- **Increase grant funds and broaden eligible expenses.** The current financial support is insufficient to support economically disadvantaged eligible license holders.
- **Expand license options.** Alternative license options, such as cannabis hospitality or delivery licenses, would lessen current market saturation. However, there is risk associated with such license expansions.
- **Long-term research consideration.** The social equity in cannabis program analysis would benefit from expanded data collection and research to evaluate success over time.

Importantly, most policy options identified to promote the goal of the Social Equity in Cannabis program will likely not be supported by all parties of interest (e.g., cities/counties with continued bans, public health partners, non-social-equity licensees, etc.) and often require legislative support with a large appropriation.

Washington State
Liquor and Cannabis Board

Washington State's Social Equity Program: Progress, Challenges, and Policy Options

An infographic on the report submitted to the Washington State Governor and Legislature under Engrossed Second Substitute Senate Bill 5167, Section 147(7).

Progress Update for Eligible/Current Social Equity Licenses

25%

Percent of successful social equity applicants have secured a location.

64%

Percent of those with locations reported sales data in the first quarter of 2025.

43%

Percent with reported Quarter One sales data had strong economic longevity indicators.

**As of September 2025*

Top Three Challenges

More than **80 cities** and **6 counties** currently have bans that prohibit retail stores.

1 Securing a retail location

"One of the toughest things is finding a good location, especially a location that's not in an already saturated area."

–Social Equity License Owner

2 Inadequate startup capital

"By the time we got to opening date, there was no money for product... We were just fortunate that we knew someone that provided a loan."

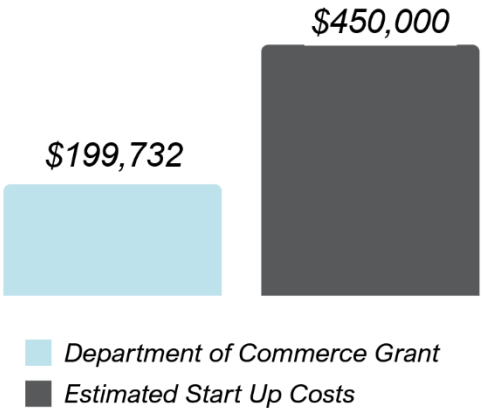
–Social Equity License Owner

3 Highly Competitive Markets

"I definitely can't buy in high volume. So I don't get discounts. I don't have five stores... I'm doing tiny orders. Sometimes it's hard to get people to bring a little order to your store."

–Social Equity License Owner

Available Grants vs. Estimated Start-Up Costs



Policy Options

- ☐ Increase grant funding
- ☐ Expand license options
- ☐ Long-term research consideration

Note: This report and infographic may include policy options that are not endorsed by LCB or represent an official opinion of LCB.

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Acknowledgements and Contributions

This report was a collaborative effort between the Liquor and Cannabis Board (LCB), Department of Commerce (COM), Washington Technology Solutions (WaTech), Microsoft, and members of the public who made public comment or who responded to surveys. **Table 1** describes only some of the contributions made to this report.

Table 1. Contributors

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Note: Not all individuals who supported this project are reflected in this table.

In addition to those who contributed to this report, LCB Board Chair Jim Vollendroff and Board Members Ollie Garrett and Pete Holmes were consulted throughout the process. Feedback from any team member was welcomed throughout the revision process. Lead author Dr. Okey, who oversees the Research Program at LCB, ensured the report's findings were transparent and non-partisan, fully aligning with the Research Program's mission statement.

CIB 137 12/25

Abbreviations

Please refer to **Table 2** for the list of abbreviations used in this report. Each abbreviation is also introduced and defined in the text.

Table 2. Abbreviations.

Acronym	Full Term
AI	Artificial Intelligence
CCRS	Cannabis Central Reporting System
COM	Department of Commerce
HB 2870	Engrossed Second Substitute House Bill 2870
FTE	Full Time Equivalent
LCB	Liquor and Cannabis Board
LEEADS	Licensing, Enforcement, Education, and Administration Data Systems
MRSC	Municipal Research Services Center
OFM	Office of Financial Management
RCW	Revised Code of Washington
SB 5080	Engrossed Second Substitute Senate Bill 5080
SB 5167	Engrossed Second Substitute Senate Bill 5167
SEC	Social Equity in Cannabis
TEV	Threshold of Economic Viability
TPI	True Party of Interest
WAC	Washington Administrative Code

Introduction

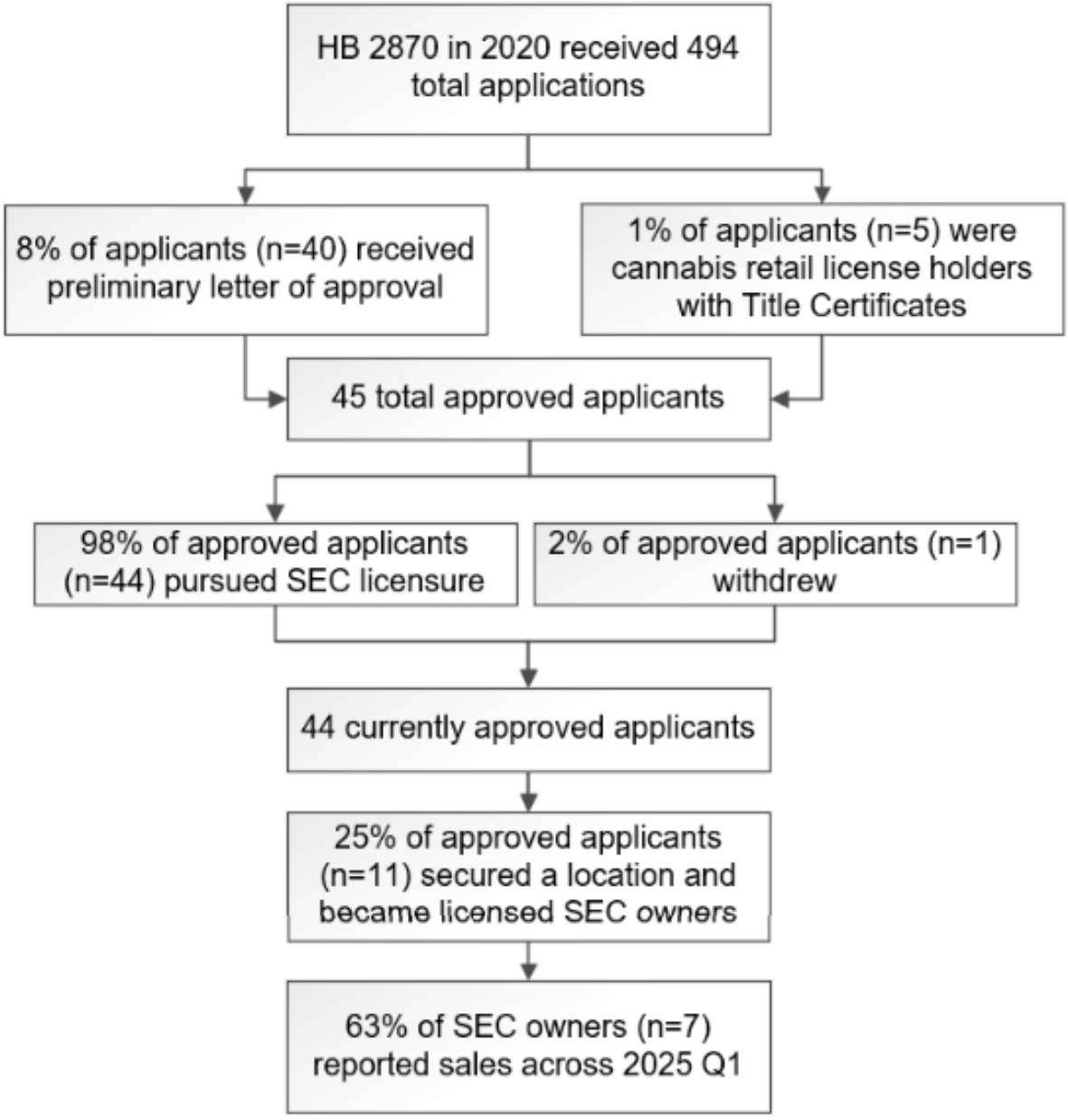
The following report is an evaluation of the Social Equity in Cannabis (SEC) program with policy options requested in Engrossed Second Substitute Senate Bill 5167 (SB 5167), Section 147(7).

The purpose of the SEC program is to reduce barriers and promote license equity and participation in Washington State's adult-use cannabis market by those most adversely impacted by the War on Drugs. The program was initially established through Engrossed Second Substitute House Bill 2870 (HB 2870), which became law in 2020.

The first phase of the SEC program primarily focused on reissuing a limited number of forfeited, revoked, canceled cannabis retail licenses, or those not previously issued. There were 46 allotments available to 22 of 39 counties. There were 40 SEC applicants who received a preliminary letter of approval to begin the cannabis retail licensing process. The retail licensing process requires securing a location and financing. In addition to the 40 applicants who received a preliminary letter of approval, there were five cannabis retail license holders with Title Certificates who were eligible under the SEC program, to relocate their business from an area that had a ban or moratorium in the initial county the license was held. As of Sept. 2025, 11 licensees (about 25% of approved applicants) have secured a location and seven (16% of approved applicants) reported sales data in the first quarter of 2025.[1-2] **Figure 1** shows a flowchart of the HB 2870 application and selection process.

In 2023, the Legislature passed Engrossed Second Substitute Senate Bill 5080 (SB 5080) to further expand and improve the SEC program. The second iteration of the SEC program included a registration window that closed in July 2025. At the time of this report, preliminary letters of approval have not been issued. For updates about SB 5080 retail cannabis license applicants and the process, please visit the LCB Cannabis Social Equity Webpage and the LCB Cannabis Social Equity Blog. Due to the ongoing second round of applications under SB 5080 and under direction of SB 5167, this review will focus on the SEC program that was established under HB 2870 and the provisions of chapter 236, Laws of 2020.

Figure 1. HB 2870 Application to License Process.



Note: To be included in Quarter 1 (Q1), retailers had to report sales data in the Cannabis Central Reporting System for Jan., Feb., March, and April of 2025.

Methods

This report was developed and authored by the LCB Research Program. The Research Program is a non-partisan and transparent resource focused on public health and safety outcomes related to the products, policy, and regulation of alcohol, cannabis, tobacco, and vapor. For more information about the Research Program's work, please visit the LCB Research Program webpage.

To conduct this review, a mixed-methods approach was used, synthesizing both primary and secondary source materials. Information was primarily collected in three ways: formal requests, expert consultations, and systematic literature as well as multi-media reviews. Analysis also included a series of surveys LCB conducted over the past two years focused on various aspects of the cannabis market and social equity. This provided a foundational element of this review.

Primary sources of this report included data elements collected and stored internally by LCB:

- Licensing, Enforcement, Education, and Administration Data Systems (LEEADS) for licensing information such as "true parties of interest" and whether locations had been secured.[1]
- Cannabis Central Reporting System (CCRS) for self-reported sales and cost of goods information for the case review of economic indicators.[2] For more information about CCRS, please visit the LCB CCRS webpage.
- Social Equity Applicant Experience Survey to better understand facilitators and barriers in the application process under HB 2870.[9] For more information and a recorded presentation on key findings to the Board, see the LCB Research Program webpage.
- Social Equity Rules Feedback to better understand support for various policy options.[10] For more information, view a report online at the LCB Research Program research projects webpage.
- Cannabis Advisory Council meeting on Aug. 20, 2025 for insights on strengths and barriers for current retail owners in the SEC program.[11] View the recording and minutes on the Board meeting schedule and information webpage.
- Public comments made to the Board in both written and verbal format about the SEC program to understand overall trends, themes and sentiments.[12] View archived public meetings online at LCB's Board Meeting Schedule and Information webpage.
- Eligible SEC retail voluntary owner self-identified race, collected by LCB through criminal records. This information is confidential, however aggregated results were presented to the Board at the June 3, 2025 caucus.[13-14]
- Results of the Licensing Social Equity Obstacles survey conducted by the LCB Licensing Division to examine barriers that licensees have faced were presented to the Board at their caucus on March 18, 2025. The presentation can be found online.[15]

To get additional insights, a request for any available data and information related to the SEC program was sent to the COM. They provided LCB with pertinent and available data. This included:

- Eligible and ineligible expenses list (**Appendix B**).[17]
- Information session for Washington Social Equity Application Grant Round 1 slides which covers information provided to applicants about pursuing grant funding.[18] Learn more about the Mentorship and Technical Assistance Program by viewing their Information Session Slides.
- Mentorship and Technical Assistance Consultant Biography packet to further inform how mentors were qualified to provide assistance during the award process.[19] View information about the Dept. of Commerce Mentorship and Technical Program online.

In addition to documented data, consultations were conducted with internal and external subject matter experts in individual and group settings to gather information not captured in official reports. These consultations included LCB staff, COM staff, SEC license holders and eligible license holders. All materials collected through these consultations were centralized to ensure this review was as comprehensive as possible within existing resources, as specified in SB 5167.

Finally, a systematic review was conducted across several secondary source categories to establish a policy context in peer-reviewed literature, government documents, and public media sources. For example, this review used data from the Municipal Research Services Center (MRSC) to understand current prohibitions and the independent contractor report conducted by Whitney Economics for LCB in 2024.[3,8]

Qualitative Analysis with Artificial Intelligence (AI) Support

To capture, review, and incorporate public comments within existing resources for this report, a novel and innovative methodology was used for the first time in Washington State. The methodology leveraged Artificial Intelligence (AI) to enhance data governance and efficiently process large amounts of unstructured public feedback. The initial development of this AI-driven platform represents a major and significant step forward towards ensuring that the Board, and perhaps Washington State, can systematically incorporate stakeholder input into its decision-making processes.

Important: This initial use case is a proof-of-concept.

Although the development of this AI-driven platform is a major and significant accomplishment for the state, this tool is preliminary, and its use must be approached with caution. Further work is needed to fully structure, validate, and develop this new tool.

This work was completed with oversight and approval of WaTech and was following EA-01-03-G Interim Guidelines For Purposeful and Responsible Use of Generative Artificial Intelligence.

To complete this analysis, the following steps were completed:

1. **Data Acquisition:** All LCB Board meeting transcripts were downloaded from YouTube. The earliest Board meeting recording was July 21, 2021 and the last Board meeting recording that was used for this analysis was Dec. 18, 2024. In total, there were 80 audio and video recordings reviewed, with recordings lasting up to two and half hours for public comments related to the SEC program. This dataset was supplemented with written public comments held by the Board and the Policy and Rules Team.

2. **Platform Development:** LCB partnered with the state's technology resource WaTech and Microsoft to integrate capabilities within Microsoft Power Automate. This partnership was crucial for developing a robust, secure platform capable of isolating and extracting public comments relevant to the SEC program from the vast body of meeting transcripts.

3. **AI-Driven Extraction:** Microsoft's AI Hub was then used to develop and refine a custom prompt to instruct AI to provide relevant information (**Appendix A**). This prompt was carefully engineered—based on expert review, legislative guidance from the proviso, and relevant research. The prompt helps AI extract specific, targeted

information and thematic data points from each identified public comment. This prompt underwent several iterations prior to the final prompt used in this analysis.

4. **Data Validation:** Due to the preliminary nature of this new AI tool, the first four sentences of all raw comments extracted were reviewed to confirm that the AI was generally accurate in its performance, with an 8% major correction rate and an average confidence rating of the AI being 88.6%. Minor adjustments were also made to ensure proper data consistency, such as standardizing dates and ensuring commenter names were consistently spelled to accurately track unique voices.

Findings

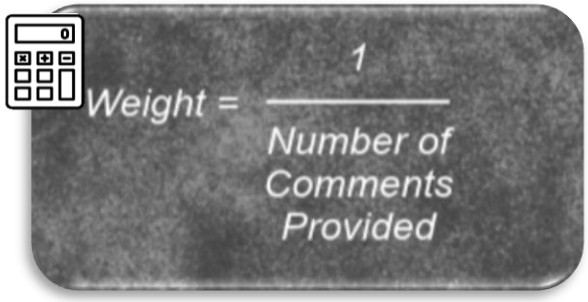
Results from the review are based on the subsections outlined in the initial ask.

A. A review of feedback received by the Board in public comments from individuals that the program is intended to benefit, the public, and the cannabis industry.

The extraction process yielded 247 distinct public comments recorded between 2021 and 2024 that were relevant to the SEC program. There was a total of 73 unique voices across all comments. When examining the pattern of feedback across individuals, 5% of individuals were high-volume contributors, submitting more than 30 public comments each, while the remaining individuals contributed between one and 13 comments.

During rulemaking under HB 2870, the volume of public comments peaked during times of concentrated stakeholder engagement and rule development. The highest level of comment was received immediately before, during, and after rules went into effect. Larger and more regular spikes of public comments occurred in the second round of rulemaking for implementing SB 5080. **Figure 2** shows the number of public comments captured across time.

When reviewing the overall sentiment, data initially showed that 64% of all recorded public comments expressed concerns (negative sentiment) within their comments about the SEC program. However, when data were weighted to account for the impact of high-volume contributors, the overall negative sentiment dropped to 50%. This weighting process is a critical tool for data-driven decision-making, allowing LCB to properly contextualize the feedback by adjusting for disproportionate commentary from a small number of participants, thereby providing a more balanced view of the overall community sentiment (**Figure 3**).



To weigh general sentiment and thematic content, each individual comment was calculated based on the total number of comments submitted by the specific unique commenter (Weight = 1 / Total number of comments provided).

Figure 2. Public Comments Across Time.

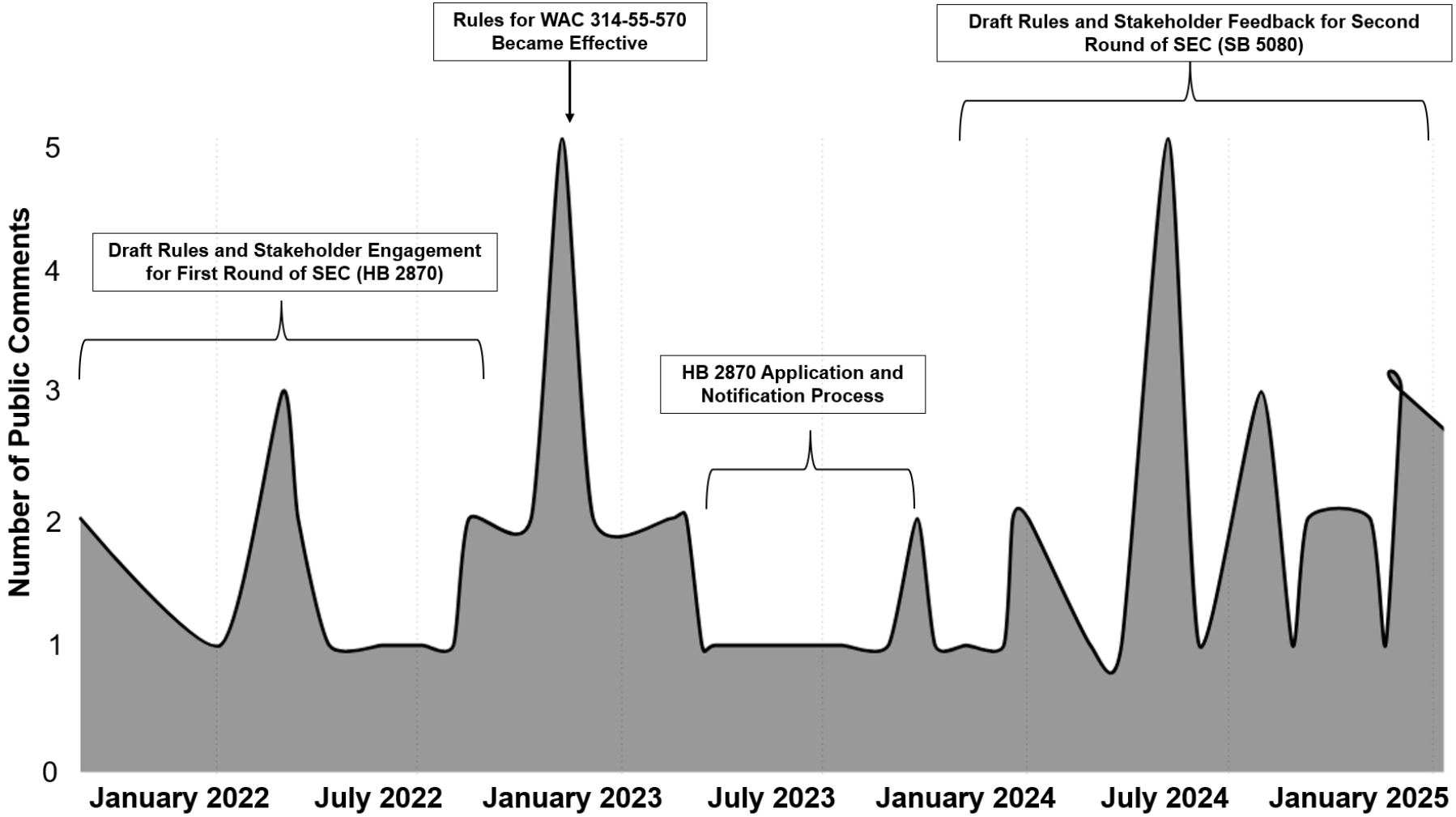
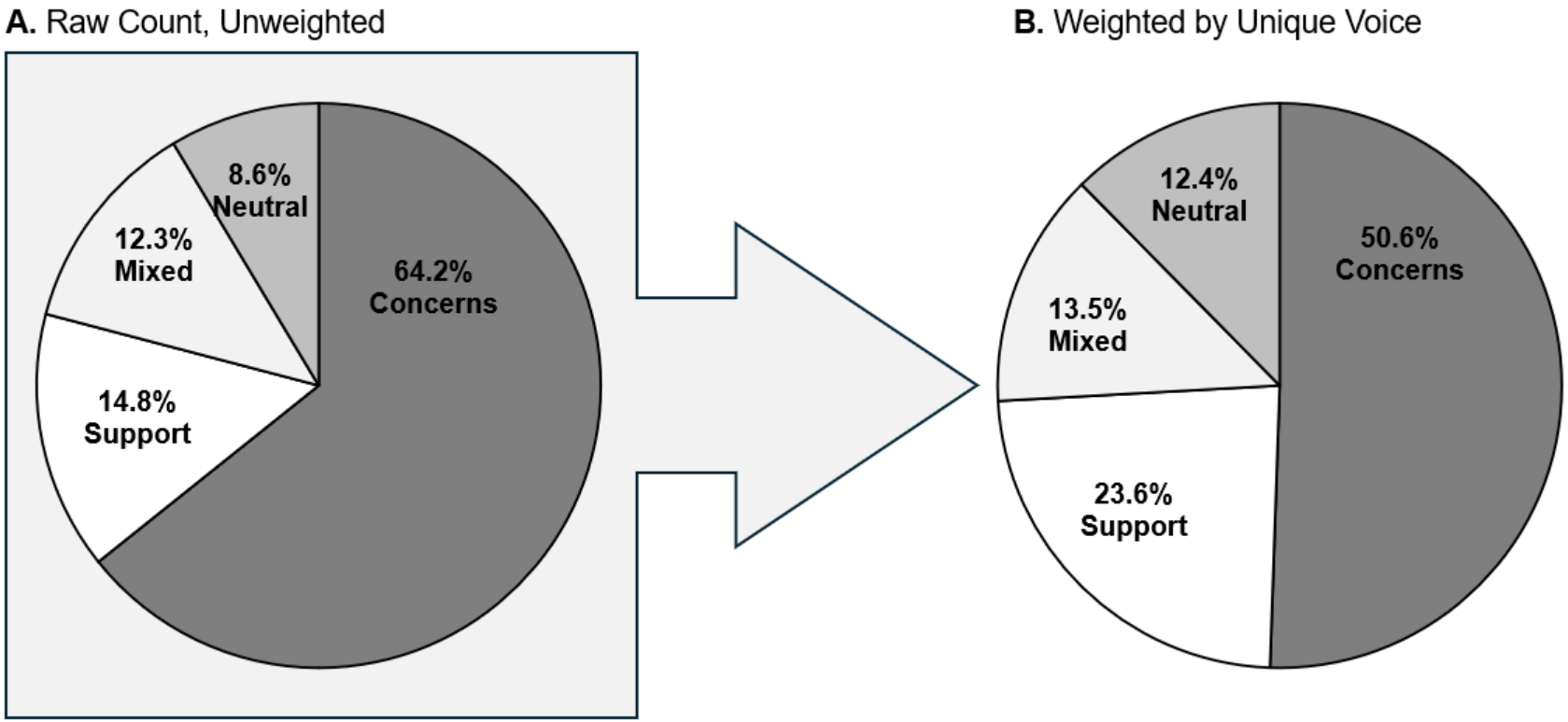


Figure 3. General Sentiments in Public Comments.



Note: The figure on the left includes all comments related to SEC across time. The figure on the right represents a more balanced representation across all stakeholders to ensure that every unique voice contributes equally.

The weighted analysis of thematic content revealed the following primary concerns captured in **Figure 4**:

- **Governance and Transparency:** This was the primary concern among those who gave public comments, indicating a loss of trust and confidence of LCB and larger government systems. The feedback alleged historical inequity and discrimination, with commenters asserting that Black and Brown communities[1] have been systematically excluded or marginalized compared to other groups. This sentiment was expressed over many years.

- **HB 2870 Application Difficulties:** This theme highlighted difficulties related to the complexity and execution of the first round of the application process. Applicants reported confusion and stress, citing inconsistent guidance from various sources including LCB, COM, the third-party contractor, and other entities.

- **Systemic Social Inequity Challenges:** There were also broader concerns related to continued disadvantages within the industry. For example, individuals noted that the Black community struggled to build wealth in the legal cannabis market and criticized the program for not supporting Black entrepreneurs and those who self-identify as 'Black Pioneers.'

- **License Mobility and Location Issues:** Many public comments included practical barriers centered on the inability of those with a preliminary letter of approval to operate effectively due to local government restrictions. Challenges included specific instances such as where a city was reportedly not allowing individuals to open, as well as general difficulties in finding compliant locations due to restrictive proximity requirements set in state law.

- **Limited Funds for Start-up Operations:** Concerns focused heavily on the adequacy and the delay in releasing financial support and grant money. Commenters explicitly framed the delay as a failure of both the LCB and COM, noting that the lack of timely funding created a vulnerable environment where those with established businesses can target and exploit social equity applicants.

- **Positive Feedback:** A small but important segment of comments offered positive feedback in support of the SEC program, specifically praising efforts of individual Board members and staff as well as acknowledging that LCB is actively working hard to improve the program.

- **Suggestions for LCB Operations:** Specific recommendations for internal improvement for LCB included actively supporting all recommendations from the

[1] Note that this report intentionally uses the term "Black and Brown communities", consistent with the language used in the SEC Task Force.[29]

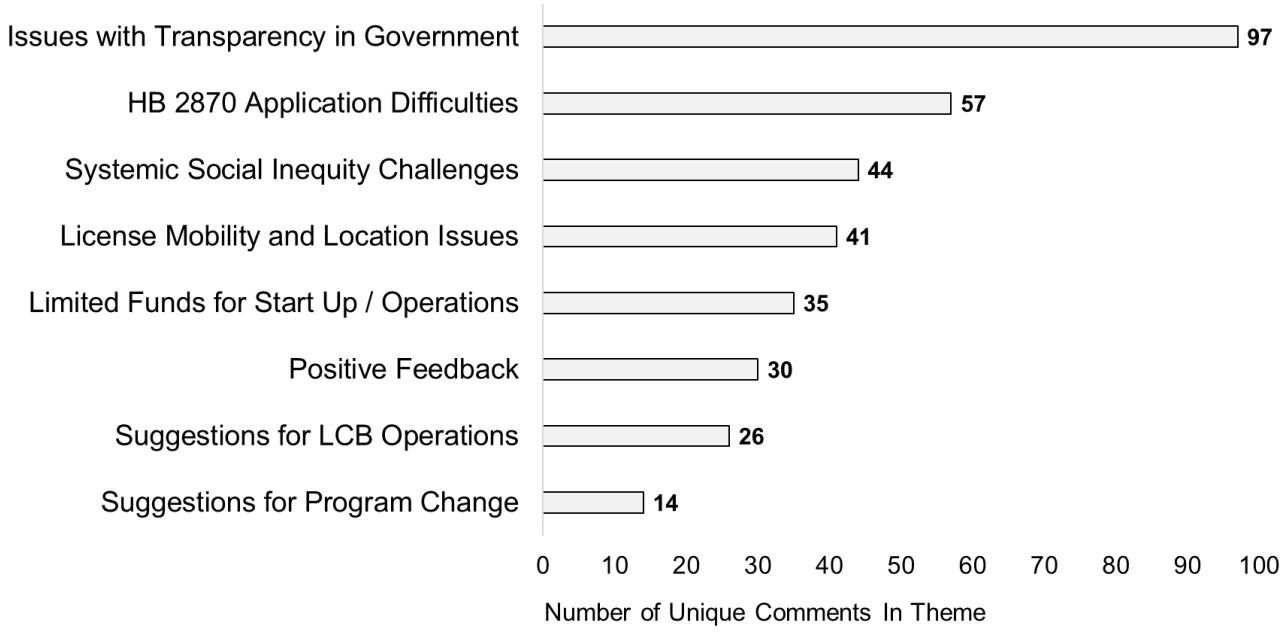
Social Equity Task Force, establishing better communication methods, conducting research studies to examine SEC retailer success, and conducting more comprehensive surveys for greater stakeholder engagement.

- **Suggestions for Legislative/Policy Changes:** Policy recommendations included requests to reevaluate grant amounts, remove the status of title certificate holders as a qualifier within the SEC program, and explicitly use race identity as a specific condition in future eligibility criteria to strengthen equity outcomes.

In 2022, the SEC Task Force was charged with advising the governor and legislature on providing recommendations to LCB on establishing a SEC program.

Learn more about their recommendations in their final report.

Figure 4. Themes Identified in Public Comments.



Note: Each public comment could have more than one theme.

These themes provide overall sentiment that aligns with the general structure of this report requested by the legislature and governor. This inaugural, AI-supported review provided three major takeaways:

1. This type of review can be a powerful new approach to capturing and governing public comment data with focus on efficiency for Washington State, which is in

line with Governor Ferguson's priority of "*speeding up government and solving problems."*

2. Although public comment is essential and important, it represents only one part of overall stakeholder engagement. For example, the surveys conducted by the LCB Research Program captured more unique individual voices in a single instance than public comments captured over three years. This underscores the need to continually seek multiple, diverse methods to get feedback to ensure truly equitable representation.

3. A policy framework with considerations and specific examples reflected in the following subsections of this report.

Important: This review may not be representative of public comments made by individuals the program is intended to benefit, the broader public, and the cannabis industry. This could include, for example, stakeholder engagement sessions, comments made to Board members after the recording stopped, or comments that were missed by the AI tool. This was intended as a preliminary review using a novel technology, allowing LCB to respond as comprehensively as possible within current resources and timelines.

B. An examination of the issuance and reissuance of cannabis retailer licenses that began before Jan. 1, 2025, under the provisions of chapter 236, Laws of 2020, including a comparative analysis of the applicants who successfully secured a location and were issued a cannabis retailer license relative to applicants whose status remains pending but were issued a preliminary letter of approval by the Board.

As of Sept. 2025, there were 11 social equity applicants with a preliminary letter of approval who successfully secured a location and were issued a cannabis retail license.[1] This represents a quarter of SEC applicants who received a preliminary letter of approval. Those who secured a location did so between early Nov. 2023 and late July 2025.[1] **Table 2** lists the counties and cities where licenses from the SEC program are currently issued. Note that although the cities are listed, those applicants or licensees unable to find a location in that city can look within the county the city is in for a suitable location. One comment from the Aug. 2025 Cannabis Advisory Council reflected on the difficulty in securing a retail location is shown below.

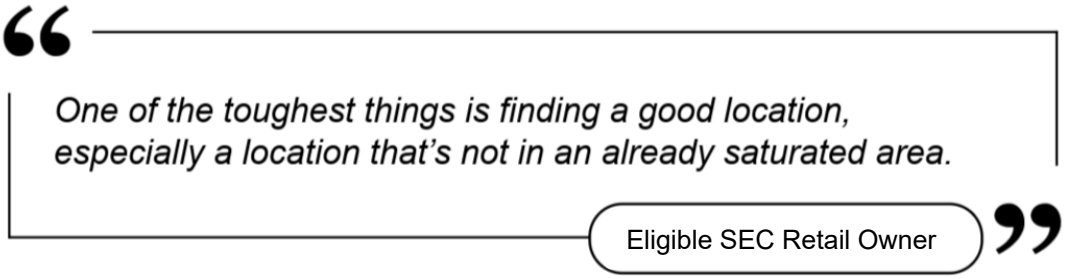


Table 2. Owners and Eligible SEC Retail Owners Who Have and Have Not Secured a Location by City as of Sept. 2025.

County (Unincorporated County Zoning Type)	***City***	***City Zoning Type***	***Number Who Have Secured Location***	***Total Number of SEC***	***Percent Successful in Obtaining Location***
Adams *(Allowed Under Existing Zoning)*					
	Ritzville	Permanent	0	1	0%
Benton *(Prohibited)*					
	Kennewick	Prohibited	0	1	0%
	Prosser	Permanent	1	1	100%
Chelan *(Permanent)*					
	Wenatchee	Permanent	1	2	50%
Clark *(Permanent)*					
	Vancouver	Permanent	2	5	66%
Ferry *(Allowed Under Existing Zoning)*					
	Republic	-----	1	1	100%
Franklin *(Prohibited)*					
	Pasco	Permanent	1	1	100%
Grant *(Permanent)*					
	Moses Lake	Permanent	1	1	100%
King *(Permanent)*					
	Kent	Prohibited	0	1	0%
	Kirkland	Permanent	0	1	0%

	Renton	Permanent	0	1	0%
	Seattle	Permanent	1	7	16%
Pacific *(Permanent)*					
	Pacific	Prohibited	1	1	100%
Pend Oreille *(Permanent)*					
	Newport	Permanent	0	1	0%
Pierce *(Permanent)*					
	Puyallup	Prohibited	0	2	0%
	Tacoma	Permanent	1	3	33%
	University Place	Prohibited	0	1	0%
Skagit *(Permanent)*					
	Burlington	Permanent	0	1	0%
Snohomish *(Permanent)*					
	Arlington	Permanent	1	1	100%
	Everett	Permanent	0	1	0%
	Monroe	Prohibited	0	1	0%
Spokane *(Permanent)*					
	Spokane	Permanent	0	1	0%
Thurston *(Permanent)*					
	Lacey	Allowed	0	1	0%
	Olympia	Permanent	0	1	0%
Walla Walla *(Prohibited)*					
	Walla Walla	Permanent	0	2	0%
Whatcom *(Permanent)*					
	Bellingham	Interim	0	1	0%
	Lynden	Prohibited	0	1	0%
Yakima *(Prohibited)*					
	Wapato	Prohibited	0	2	0%
Total			**11**	**44**	**25%**

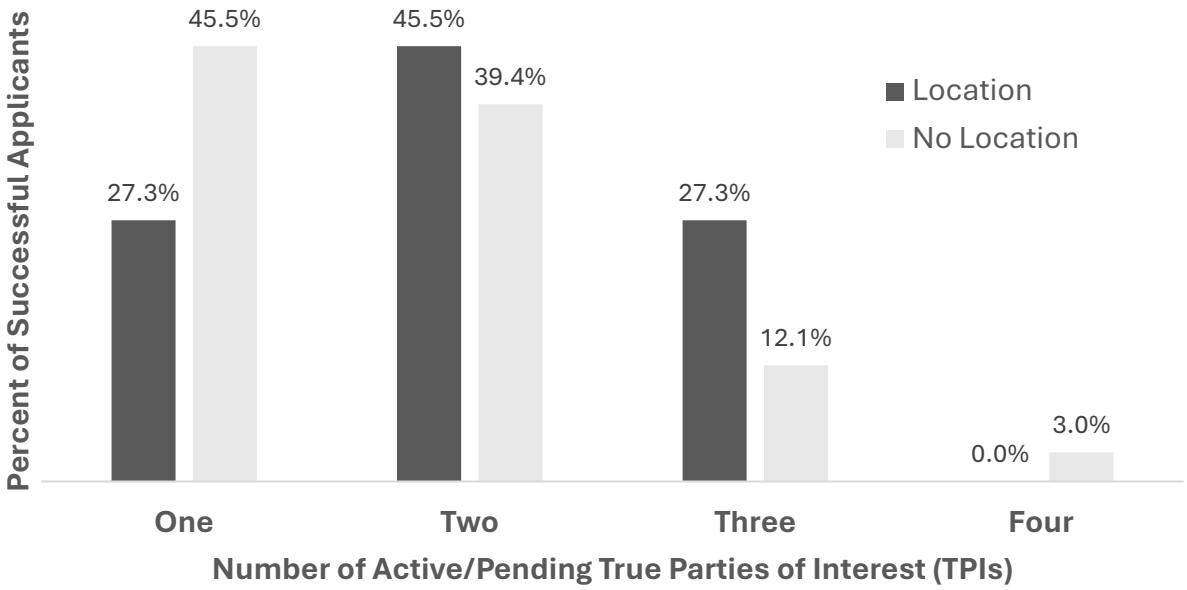
Note: MRSC does not include Republic, Washington. In HB 2870, SEC applications were designated to a county by LCB. County zonings listed are for unincorporated areas.

Outside of city/county, there were only a few characteristics available to compare within existing resources between successful applicants who had not yet secured a location and those who had secured a location and were licensed. These characteristics included (1) demographic characteristics, which are described more thoroughly in Section D of this report, and (2) number of true parties of interest.

True Parties of Interest (TPI) in Washington State is defined by the Washington Administrative Code (WAC 314-55-035) as *"any individual or entity that holds an interest in a cannabis business, regardless of their percentage of ownership, or any person who exercises independent control over the business."* Research suggests a strong positive relationship between increased number of TPIs and maximum capital, particularly for startups when securing funding is difficult.[32] This may be particularly true for SEC businesses when (1) locations are difficult to find (see Section E, Barrier 1 for more information on this topic), and (2) applicants are lacking adequate financial resources by definition of the SEC program. A recent review of cannabis equity initiatives across the United States found that economic barriers are a nationwide difficulty for SEC businesses. [33]

A comparison of the average number of TPI contacts registered in the LCB licensing system showed a notable distinction between applicant groups. Specifically, those who successfully secured a location reported a greater number of active or pending TPI contacts (an average of 2.0 TPIs) compared to those still seeking a location (1.7 TPIs on average, **Figure 5**). While this descriptive analysis does not prove that a greater number of TPIs directly contributes to securing a location, the preliminary results agree with what broader research shows: increased capital – in this case facilitated by a wider pool of TPIs – allows for the financial flexibility necessary to secure premium or competitively sought commercial real estate.

Figure 5. Distribution of True Party of Interest (TPI) by Successful SEC Applicants Who Have (n=11) and Have Not (n=33) Secured a Location.



C. *An examination, in consultation with the Department of Commerce, of grants awarded and the mentorships provided under RCW 43.330.540 and opportunities for the alignment of the Board's implementation of the cannabis social equity program with the Department of Commerce's implementation of RCW 43.330.540.*

There were two rounds of grant funding provided under RCW 43.330.540, which established the Cannabis Social Equity Technical Assistance Grant Program. The program was developed to assist individuals who received a preliminary letter of approval to open a retail location. The grant application period was open for one month (April 1-30, 2024).[17,19] Grants were awarded on June 15, 2024. Although the grant term was originally set for 12 months from the date of award, COM extended this period through June 30, 2026. This extension was made so grantees could spend their grant since many awarded grants were unable to be spent due to the difficulty in finding a location.[19]

Strengths. As of July 1, 2025, COM had expended over $6.1 million of $8.1 total in grant funds to SEC applicants who had received a preliminary letter of approval.[19] There were many strengths within this program, such as offering direct and indirect operating funds (e.g., up to $141,729 for Round 1 and $58,003 for Round 2 per applicant). The funds helped with payroll and fringe benefits, travel when aligned with Office of Financial Management (OFM) travel policies, means and event expenses when justified

and tied to the program, and appropriate legal and audit expenses (**Figure 6**) (see **Appendix B** for a full list of eligible and ineligible expenses).[16-19]

> *The Social Equity Program has helped provide a lot of professional services and helped me tackle barriers to open up my store.*
>
> SEC Retail Owner

The mentorship component of this program has provided over 2,100 hours of technical and business support from 10 highly experienced "Client Success Manager Consultants" and "Technical Specialist Consultants" (referred to collectively in this report as mentors) with diverse expertise across cannabis and business landscapes.[18] According to the consultant biography packet, these mentors offered a range of information and skills critical for navigating Washington's I-502 market. For example, mentors had knowledge and experience managing and operating licensed cannabis stores. Some mentors had a focus on policy and social justice that are central to this Social Equity in Cannabis program while others specialized in business functions related to finance, legal, and real estate to address common startup business barriers.[18]

Individuals used technical assistant support more than general mentorship (66% vs 34%, respectively), which may highlight that eligible SEC retail owners prioritized immediate, task-specific assistance over broader guidance.[19] All grantees interacted with the mentors, with five grantees receiving over 120 hours of mentorship (**Figure 7**).[19]

> *I went to my first Interchange event that allowed me to network and improve my producer clientele relationships.*
>
> SEC Retail Owner

Growth Areas. Despite these significant investments, several barriers limited full program success. The primary limitation was the inability for eligible SEC retail owners to secure retail locations. This issue directly impacted the utilization of funds, with about $1.9 million that remains unspent as of early Fall 2025.[19] Once the location hurdle is cleared, award recipients appear to be able to effectively spend these funds. For example, all recipients who secured locations and opened their businesses were successfully able to expend their allocated funds to date.[19] COM also suggested that the difficulty in finding a location may be one reason why some grant recipients did not fully engage in the mentorship component. Mentors noticed that some award recipients became discouraged and had decreased engagement or expressed less need to interact with mentors because, without a location, mentorship on the technical support

of running a business felt less immediately applicable relative to finding a place to run their business.[19]

There were also several ineligible expenses for these grants.[16] Ineligible expenses included, but were not limited to: bills for taxes including county property tax and state excise, federal or state expenses, capital expenses, land acquisition, office equipment, any and all expenses incurred prior to the execution of the contract, deposits/down payments, pre-payments of any kind, etc. Of the eligible expenses, some disbursements from these funds were delayed as grantees needed to provide documentation that expenses were for eligible expense reimbursement. Some individuals reported they provided this documentation but that receiving these reimbursements took too long and subsequently they incurred additional costs and further drained already tight budgets.[12]

Figure 6. Funds Awarded and Spent in Grant Rounds 1 and 2, as of July 2025.

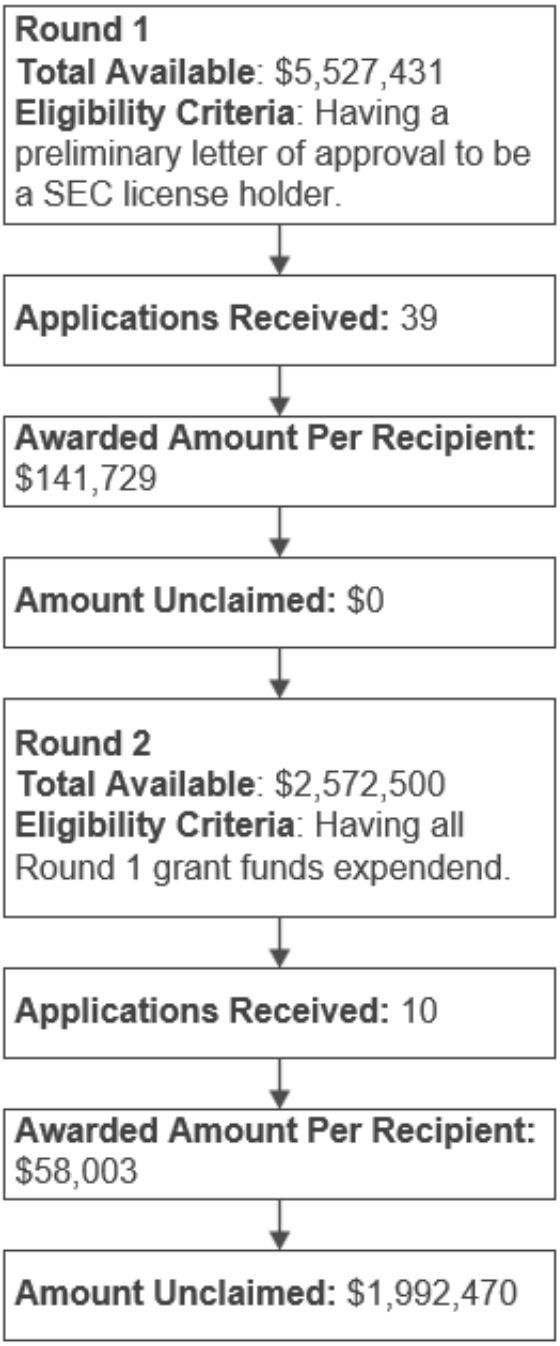
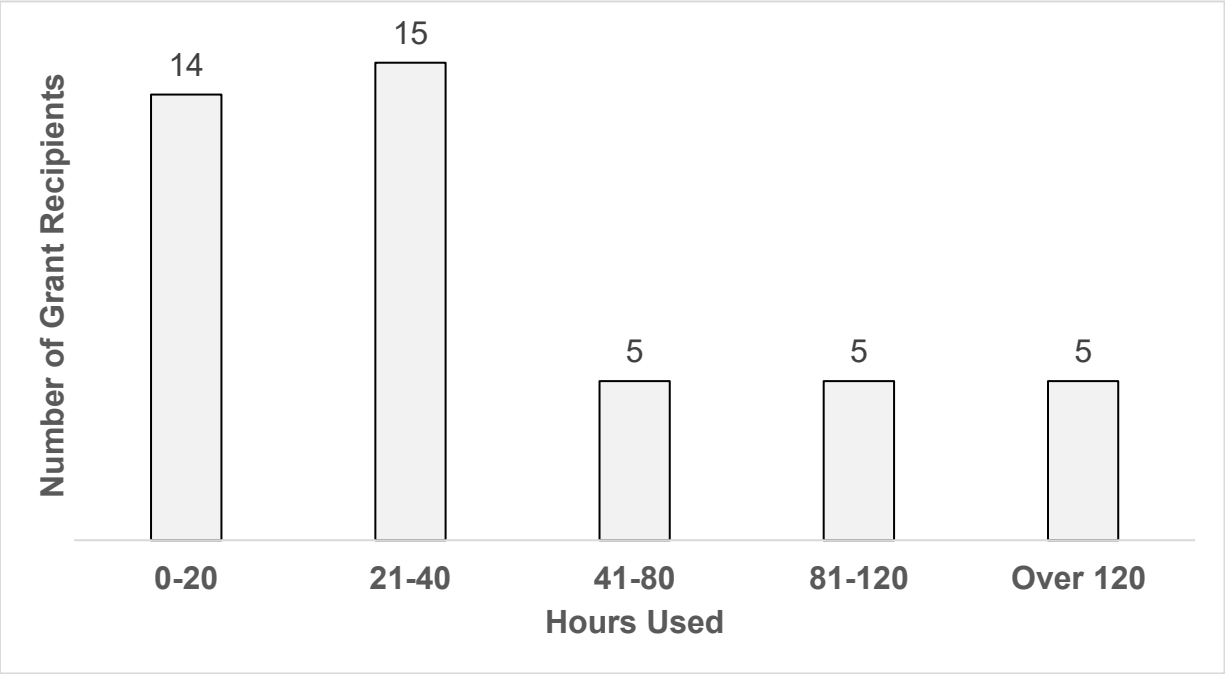


Figure 7. Hours Utilized Per Grant Recipient.[19]



Regarding growth areas for this program, the following comments were received from the Aug. 2025 Cannabis Advisory Council by current and eligible retail owners in the SEC program:

> *By the time we got to opening date, there was no money for product... We were just fortunate that we knew someone that provided a loan and we are paying them back obviously as it's supposed to be.*
>
> SEC Retail Owner

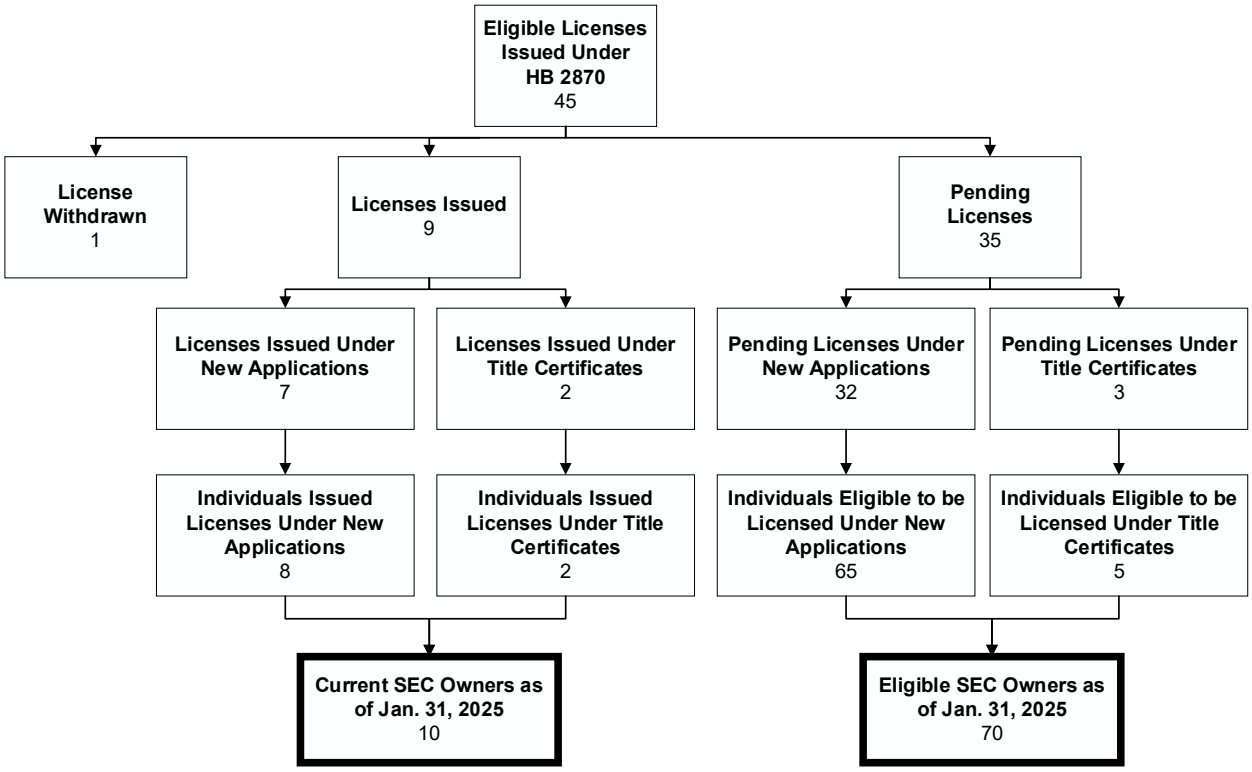
> *The program kept changing as far as the grant money and stuff. I felt like if there was more transparency about how it was going... it would have been easier.*
>
> Eligible SEC Retail Owner

D. The demographic information about owners of licensed cannabis businesses who became licensed under the cannabis social equity program, to the extent such information is available or obtainable by the Board.

Ethnic-Racial Identity. Information on the ethnic-racial identity of licensed cannabis business owners, regardless of whether they became licensed under the SEC program, is voluntary and is not typically collected or stored by LCB in a readily accessible way for any license type (e.g., Liquor, Cannabis) issued by the Board. LCB decided not to collect and store voluntary self-reported demographic information on license holders to provide a neutral, unbiased approach.

However, given the interest in demographic data for the SEC program, one voluntary self-reported dataset was collected within the Licensing division. An overview of the SEC licenses as well as the individuals licensed are summarized in **Figure 8.**

Figure 8. Summary of Eligible Licenses Issued Under HB 2870.[13-14]



Current SEC License Owners. Voluntary self-reported demographic data for the nine current SEC license owners were reported to the Board at the June 3, 2025 caucus.[14] These included eight individuals with 100% ownership and two individuals with co-ownership. The voluntary self-reported ethnic-racial identity of these 10 individuals included:

- Four Black individuals (40% of current SEC license owners)

- Three Caucasian individuals (30% of current SEC license owners)
- Two Hispanic individuals (20% of current SEC license owners)
- One Multi-Racial (Chinese and Black) (10% of current SEC license owners)

Eligible SEC License Owners. Outside of the 10 current SEC owners, there are 70 eligible SEC owners, meaning their applications are approved but they are not yet licensed (typically because they have not yet secured a location and/or financing).[13-14] The voluntary self-reported ethnic-racial identity of these 70 individuals included:

- 28 White individuals (40% of eligible SEC license owners)
- 16 Black individuals (23% of eligible SEC license owners)
- 10 not yet disclosed (16% of eligible SEC license owners)
- Five Hispanic or Latino (7% of eligible SEC license owners)
- Four Asian (6% of eligible SEC license owners)
- Five Multiracial (4% of eligible SEC license owners)
- One Native Hawaiian or Other Pacific Islander (1% of eligible SEC license owners)
- One American Indian or Alaska Native (1% of eligible SEC license owners)

To evaluate demographics, it is important to compare against benchmarks. This report uses two: (1) the ethnic-racial identity for the overall Washington State population[21] and (2) the voluntary reported ethnic-racial identity of licensed cannabis retailers.[20] Comparing the overall Washington State population measures proportional representation. Comparing demographics of licensed cannabis retailers (as provided by the Joint Legislative Audit Review Committee) measures how the industry structure has changed across time.

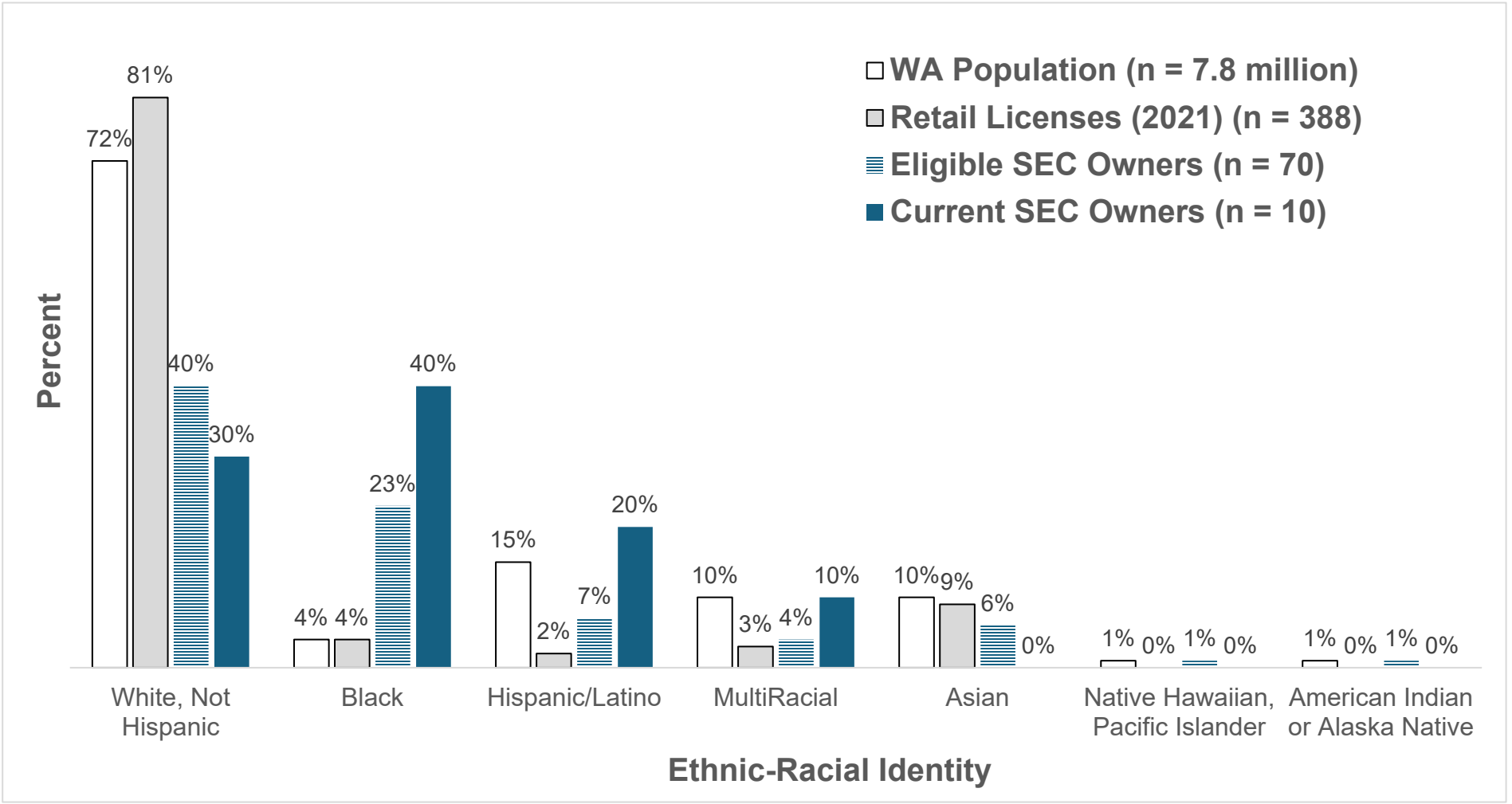
Figure 9 compares the ethnic-racial identity composition of four groups:

1) Overall population of Washington State (n=7.8 million)
2) Licensed cannabis retailers in 2021 (most recent available data) (n=388)
3) Eligible owners of SEC licenses as of Jan. 31, 2025 (n=70)
4) Owners of SEC licenses as of Jan. 31, 2025 (n=10)

This comparison highlights that the SEC program has been successful in providing opportunity for a more ethnic-racial diverse group of people than the incumbent (current owners who were not social equity licensees) cannabis owners and the population of Washington. **For example, the percentage of Black and Hispanic individuals licensed in SEC is substantially higher than their representation in both the overall Washington State population and the original pool of licensed cannabis retailers.**

Important: Ethnic-racial data is voluntary self-reported and not typically collected by LCB. This data reflects one time point and is not considered to be a complete dataset. Any future data collected may not be comparable.

Figure 9. A Comparison of Ethnic-Racial Identity Among the WA State Population, Licensed Cannabis Retailers (2021), Eligible SEC Owners, and Current SEC Owners.



Note: This figure does not include the 10 eligible SEC retail owners who had not voluntarily disclosed their race/ethnicity as of Jan. 31, 2025. Both the title certificate holders and the new applications are combined.

Other Demographics. Notably, the goal of the SEC program to increase diversity included indicators beyond race and ethnicity. For example, a key criterion for SEC applicants was having a household income less than the median household income in Washington State. This criterion ensured the program would include people who were economically disadvantaged regardless of their ethnicity and/or race. The application rubric (scoring based on all criteria) included whether the applicant or a family member had been affected by the War on Drugs. Other information, such as if the applicants and current SEC license holders were veterans, woman-owned, or minority-owned businesses were also important to accomplishing this goal.

It is important to note that it was not possible to capture data on these other demographic characteristics for the first round of SEC applicants. The Social Equity in Cannabis Team at LCB has been communicating with Alta Point Consulting, the contractor for SB 5080, to ensure that the contractor has the capacity to capture voluntarily submitted demographics information from Round 2 applicants. A social equity applicant experience survey planned in the upcoming months will ask applicants for optional demographic information which will improve our understanding of the demographics of the SEC applicants.

E. The identification of any provisions of law or rule and any economic, market, or practical factors that effectively prevent or hinder the successful opening, operation, and business success of cannabis businesses licensed under the cannabis social equity program.

Results from surveys, subject matter experts, license holders in the SEC program, and public comments highlight three interconnected barriers that hinder the successful launch and operation of cannabis businesses licensed under the SEC program. Each barrier builds upon the previous one.

Barrier 1: Inability to Secure a Location. The single-most reported difficulty hindering SEC licenses from successfully opening is securing a location.[5,12,15,19] The primary factors underlying this barrier include (1) real estate and (2) zoning and permitting.

Real estate: The market offers few available, permissible locations. Locations that are available command premium rent, which economically disadvantaged people cannot afford. Furthermore, data indicate landlords are reluctant to lease to cannabis businesses and inflate prices to buffer against perceived and real risks of operating this type of business.[22] For example, recent survey findings published by the National Association of Realtors revealed several concerns among those with the ability to lease property to cannabis businesses, with the top three being smell, fire hazards, and theft of cash on property.[22] In that same survey, and for those commercial members operating in states that legalized cannabis prior to 2020, there was greater perception that crime would increase near retail stores relative to the actual crime rate change.[22]

> *We are coming into this industry late in the game and most the locations – successful ones – are taken up… and it's the way that the cities and counties set up zoning they only allow so many per area. So, it's really hard to find somewhere that is available.*
>
> Eligible SEC Retail Owner

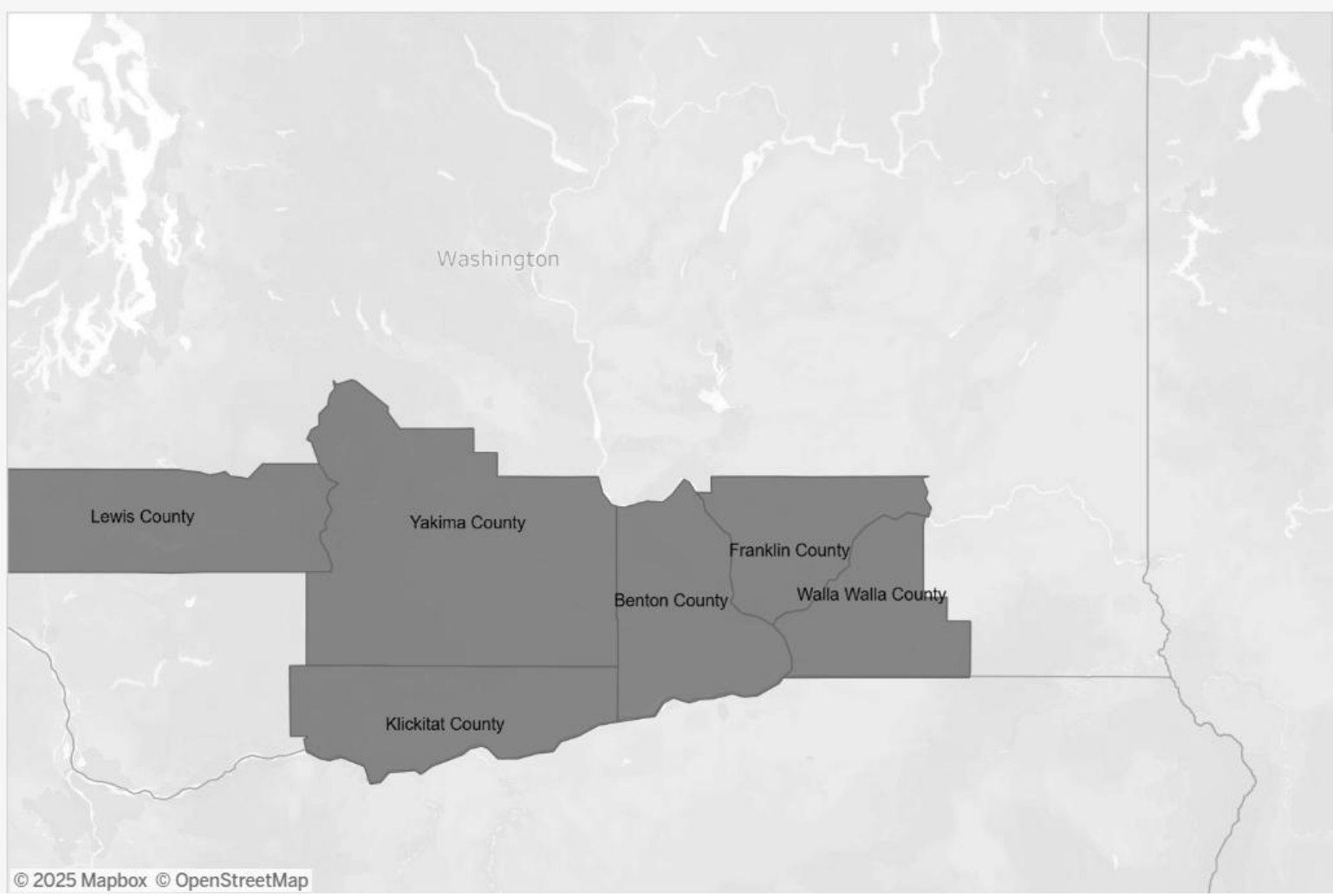
> *I've been trying for the last two and a half years trying to get location, but some of the cities there won't allow it or a city is already at max capacity.*
>
> Eligible SEC Retail Owner

Local government jurisdiction restrictions: Zoning, bans, and moratoriums in cities and counties as well as buffer requirements (e.g., distance from schools and parks) further limit location availability for eligible SEC retail owners. For example, there are currently over 81 cities and six counties that prohibit state-licensed cannabis businesses (**Figures 10** and **11**).[3] Many of the same concerns from commercial real estate members exist on a broader scale for local governments, with many reporting concerns about the impact of allowing cannabis retail stores on youth access, crime rates, and community aesthetics.[12,23]

The LCB SEC Program has already made substantial efforts to support applicants by talking with several cities and counties about the role that cannabis licenses can play in increasing employment opportunities for their local jurisdiction.[23] The LCB Research Program has also published a Dedicated Cannabis Account Dashboard with cannabis revenue distributions to further show the fiscal benefit for local jurisdictions who opt in. Local governments with prohibitions can also see the potential revenue they are missing out on by comparing with similarly sized jurisdictions that allow cannabis businesses to operate.

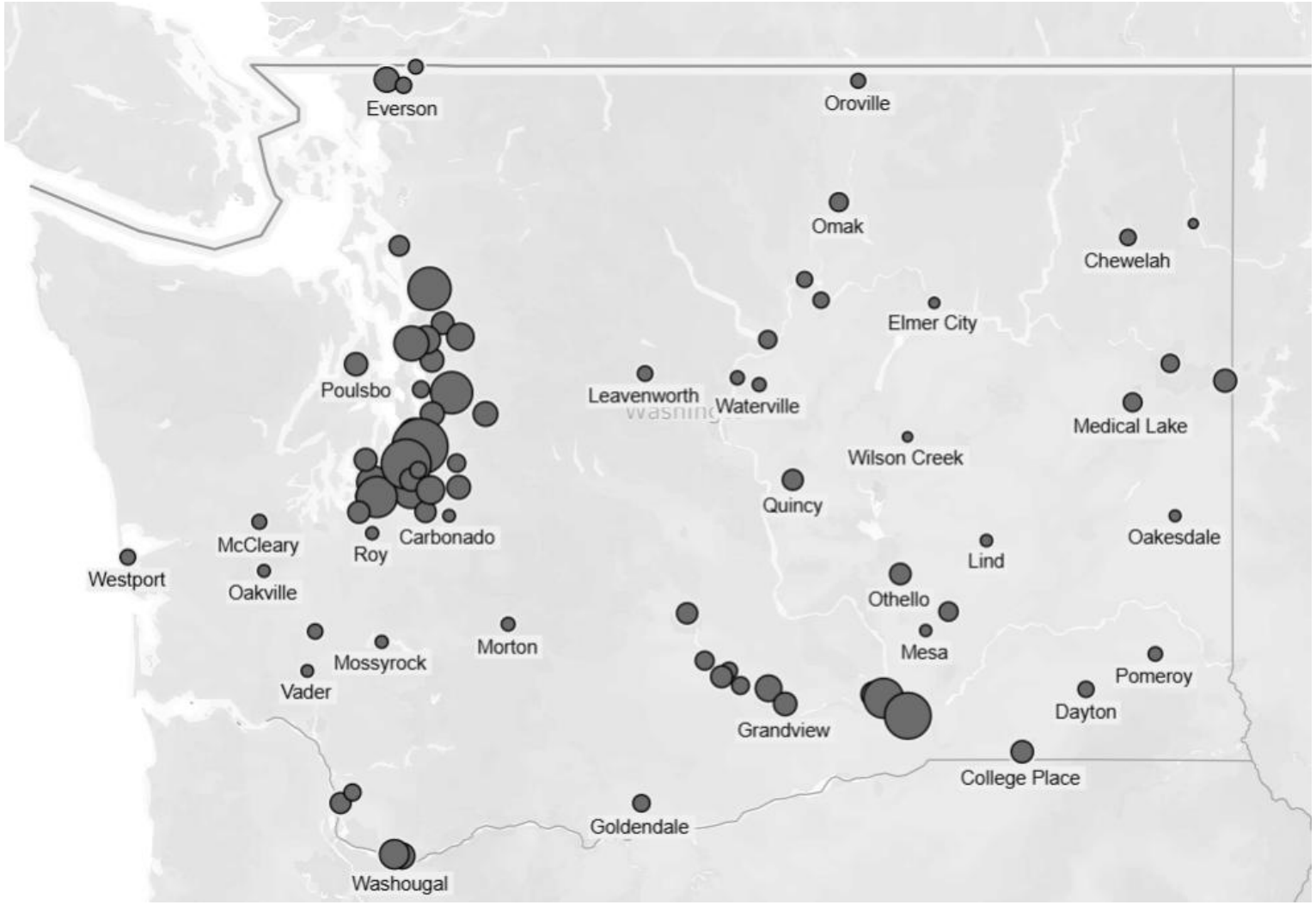
A study from New Jersey examined possible factors for why municipalities determine whether to opt-out.[24] That study found that local jurisdictions were most likely to allow cannabis businesses when they had larger populations, lower property value per capita, less affluent residents, and more liberal residents.[24] Interestingly, the same study found that home prices *increased* among those municipalities that allowed cannabis businesses. Funding a research study to examine these factors in Washington could illuminate paths forward for reducing the number of prohibitions against cannabis businesses

Figure 10. Counties With Prohibitions.[3]



Note: This figure is from MRSC.

Figure 11. Cities with Prohibitions.[3]



Note: This figure is from MRSC.

Barrier 2. Inadequate Startup Capital

Funding problems were the second most cited difficulty, including several layers of practical challenges. Because of the requirements to qualify for the SEC license (i.e., economically disadvantaged and having a household income less than the median household income for Washington State), most retail owners in the SEC program lack the financial resources needed to cover initial startup costs. Although the grants awarded under RCW 43.330.540 provided some assistance, these funds were unable to be used for certain important startup costs (e.g., cannabis products to sell) or ran out after the initial build out.

Current startup estimates for cannabis retailers range from $250,000 to $1,000,000 depending on scale of operations and location.[6-8] A average estimate of $450,000 was suggested at the recent Cannabis Advisory Council meeting.[11] Assuming this estimate is accurate for Washington State on average, the full amount from the COM grant ($199,732 total between Rounds 1 and 2) would cover less than half of the initial start-up costs ($199,732 / $450,000 = 44%). More research on initial startup costs in Washington is needed to get more accurate estimates and how costs might vary across the state.

> *Where are you going to get the money for your product? I mean, there's a lot of people out there offering loans… but with that, you're giving up a portion of your business. You're not going to get a cannabis loan from a bank.*
>
> Eligible SEC Retail Owner

Within the cannabis market, license holders are denied access to traditional lower-interest bank loans due to federal prohibition. Therefore, without grants provided by the Washington State Legislature for license holders in the SEC program, entrepreneurs must turn to alternative financing options. These options typically involve high-equity dilution or high-interest rates attached to the funding model.

> *I have no money to buy product. I got my employees in the store selling air and water because we have no more money.*
>
> SEC Retail Owner

Barrier 3. Market Competition

If an SEC retail owner is able to successfully navigate location and funding barriers, they still face a significant hurdle from the state's mature and hyper-competitive market. Several retail owners in the SEC program have reported struggling to gain a foothold against their more established counterparts who have been operating since the beginning of I-502.[11-12] For the small number of retail licenses in the SEC program who have successfully opened within the state, market conditions are challenging due to the substantial oversupply of cannabis, which drives wholesale prices down and creates an uneven playing field.[8n,20]

> *I definitely can't buy in high volume. So I don't get discounts or anything. I don't have five stores… I'm doing little tiny orders. Sometimes it's hard to get people to bring a little order to your store.*
>
> SEC Retail Owner

This highly saturated market and low-margin environment, combined with the extreme difficulty in securing capital and real estate, means new businesses face an uphill battle to achieve long-term profitability and success.

> *It's one thing to have different retailers in the same area. It's another to maliciously go after the other ones that are already open. They come in and see who we have as products and then they just turn around, bring them on and sell them at 50% off. And it's hard to compete like that.*
>
> SEC Retail Owner

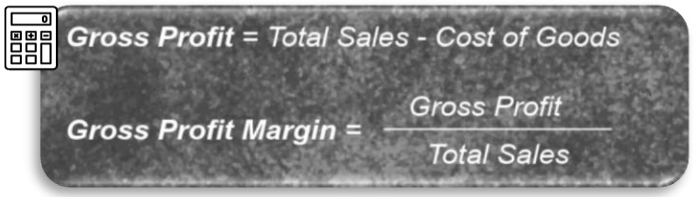
Case Review of Economic Indicators.

To further examine how SEC retail owners compare to their counterparts in the cannabis market, reported sales, and purchasing (i.e., cost of goods) data were pulled from CCRS for Jan., Feb., and March 2025 (**Figure 12**).[2] The first three months were used because most SEC retailers who have successfully opened have only done so within the past year.[1] There was also a CCRS systems limitation beginning in April 2025 that has made it difficult to pull more recent data that is both valid and reliable within existing resources.[23]

The Cannabis Central Reporting System (CCRS) is the official, state-developed platform used by all Washington cannabis license holders to report various operational metrics, including sales and inventory.

To learn more, go to the LCB's CCRS webpage.

Figure 13 shows the gross profit (Gross Profit = Total Sales – Cost of Goods) and the gross profit margin (Gross Profit Margin = [Total Sales – Cost of Goods] / Total Sales) reported to LCB by the seven operating SEC retailers and the 17 closest non-SEC cannabis retailers in proximity as a baseline comparison.[2]



Only seven retailers in the SEC program had reported sales data for the first quarter of 2025. The 17 comparison retailers were picked based on a one-mile straight line distance from SEC retail licenses when there were retailers at this distance. When there were no retailers within that one mile, the closest two retailers were identified. Proximity was used to identify comparisons that account for different economic factors that may vary by county (e.g., product acquisition costs, per capita income, customer volume).

[2] Note there were originally 18 closest cannabis retailers as a baseline. However, the 18th retailer had a substantial fluctuation across time that appeared to be either an extreme outlier of the larger dataset or an inaccurate report. Therefore, this retailer was excluded from the case report.

In 2024, LCB contracted with Whitney Economics to determine the threshold of economic viability (TEV) for cannabis retail licenses in Washington State.

TEV is defined as the minimum amount of revenue needed for long-term success, which was found (on average) to be $208,000 sales per month.

TEV was calculated by examining factors such as year-over-year sales growth, legal cannabis participation in Washington State, and the lowest amount of revenue needed to cover annual expenses after considering factors such as labor, rental rates, etc.

Although these calculations are only estimates and long-term economic viability for any one license is highly nuanced, the Whitney Economics report used this threshold for determining the extent to which operating SEC retailers were meeting this estimated threshold.

Learn more from Whitney Economics' final report.

To protect sensitive data, profit data was averaged by threshold of economic viability (TEV). TEV is considered the minimum revenue necessary for a retailer to be viable and sustain its operations.[8] According to the independent contractor report in 2023 by Whitney Economics, TEV for cannabis retailers is $208,000 in sales per month.[8]

Among all retailers examined, three (42.9%) retailers in the SEC program and four (76.5%) non-SEC retailers met TEV (were at or above $208,000 in sales from Jan., Feb., and March).

Among all retailers examined, four (57.1%) SEC retailers and four (23.5%) non-SEC retailers did not meet TEV (were at or above $208,000 in sales from Jan., Feb., and March.). **Figure 12** illustrates those who were above and below this threshold.

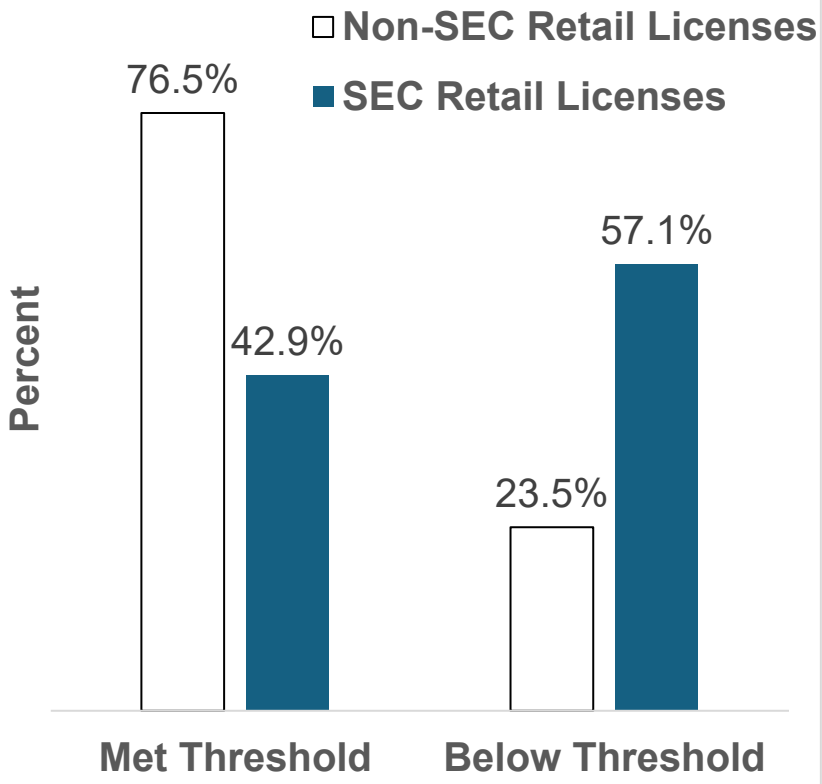
Gross profit trends indicate retail stores in and outside of the SEC program are experiencing both success and difficulty.

On average, however, retailers outside of the SEC program are experiencing greater gross profit than those in the SEC program.

Gross profit margins are crucial for ensuring products are priced high enough to cover the costs of goods purchased and still leave enough money for operating expenses. Gross profit margins appeared relatively similar for those meeting TEV, regardless of whether they were part of SEC.

Nevertheless, more than half of SEC licenses were not meeting TEV (**Figure 12**). Further, the gross profit margins among those who were not meeting TEV were extremely volatile, illustrating that the market is indeed hyper-competitive (**Figures 13-14**). One limitation of this case review is that SEC licensees are just beginning compared to their competitors who have had years to mature, thus making this comparison difficult as time in business is a significant factor. Almost a quarter of retailers outside of the SEC program were also not meeting TEV, indicating that there are broader indicators of market distress outside of the SEC program.

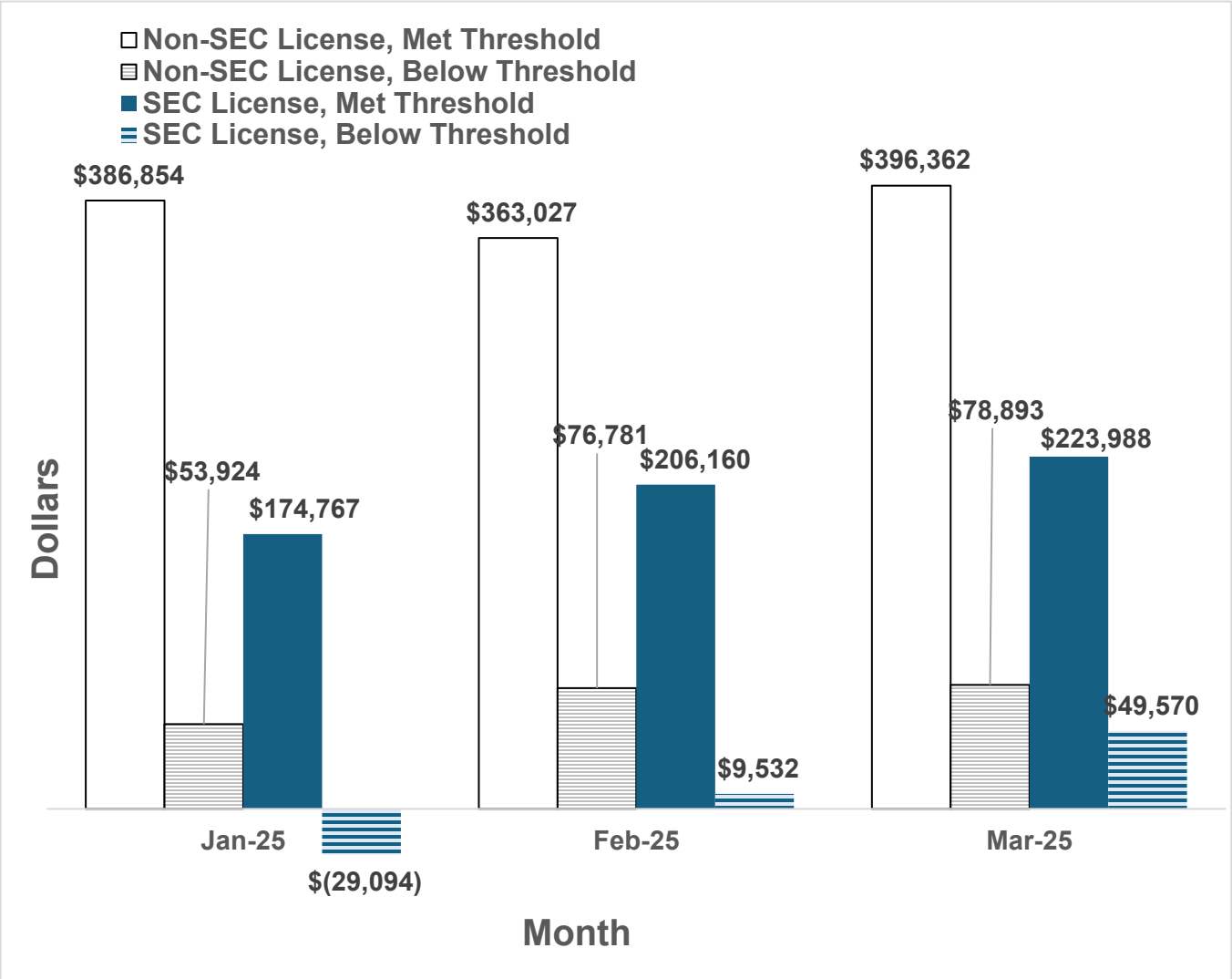
Figure 12. A Comparison of SEC and Non-SEC Retail Licenses on Threshold of Economic Viability.



Note: To meet threshold, retailers must have net sales above $208,000 per month for Jan. to March of 2025 (i.e., at least $624,000). Only non-SEC retail stores in closest (e.g., one mile) proximity of the SEC retail stores were examined.

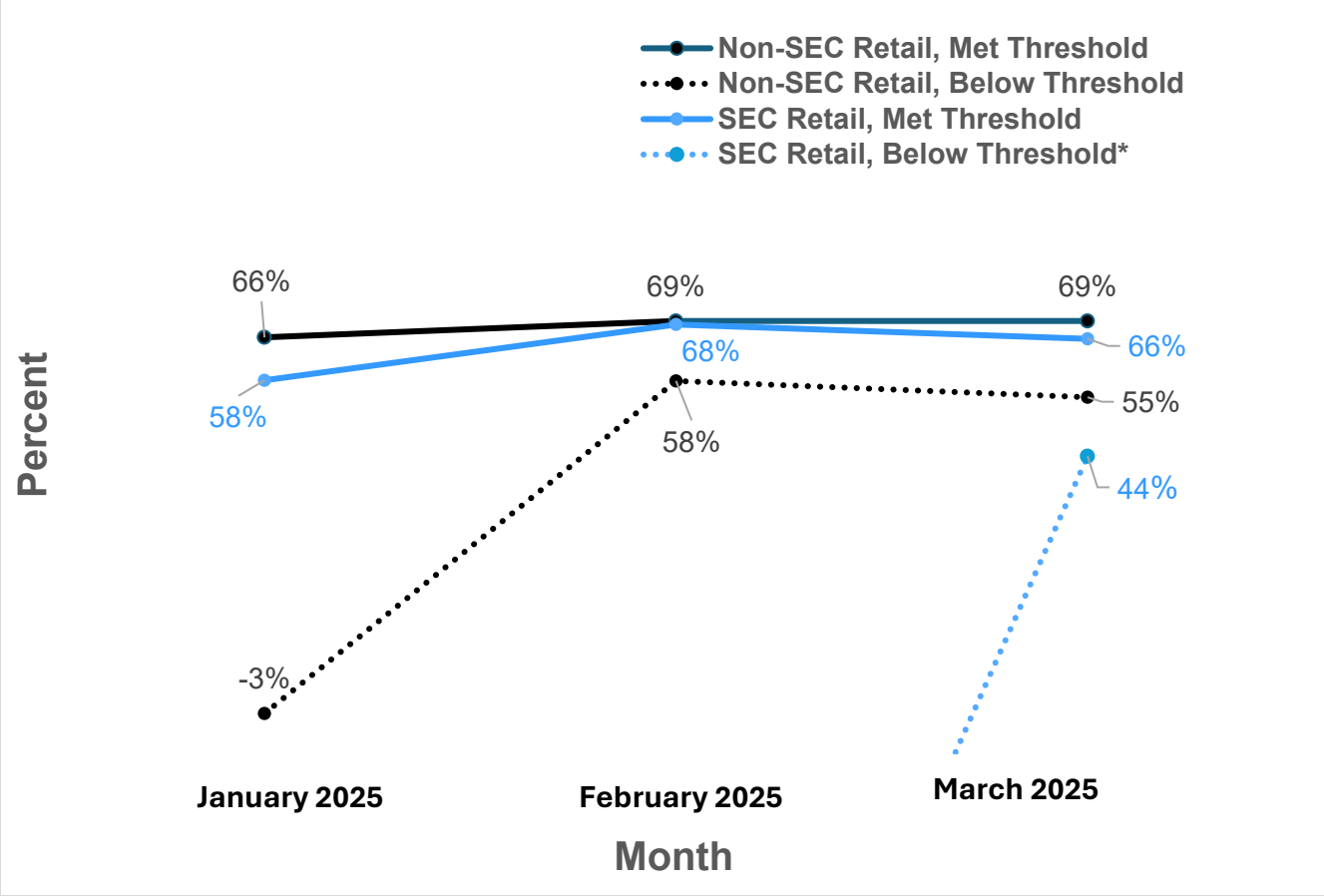
Important: The Cannabis Central Reporting System (CCRS) data is self-reported and could not be verified against tax data with existing resources. Use caution when interpreting results of this preliminary analysis. It is uncertain to what extent the retailers analyzed (e.g., those in proximity of the operating SEC retailers) were fully representative of all licensed retailers across the state. Results should be viewed considering the unverified, self-reported nature of the source data.

Figure 13. Gross Profit by SEC Retail Status.



Note: These are self-reported sales revenue in dollars by retailers.

Figure 14. Gross Profit Margin by SEC Status.



Note: For clarity of the other gross profit margins, the gross profit margins for Jan. and Feb. 2025 among SEC retailers below threshold are not shown because they were a significantly large negative percent (-36,062% and -126% respectively), likely due to the early stages of operation startups.

Important: Gross profit and profit margins were difficult to assess given many SEC retail stores were within their first initial months of operation. Highly variable and uncharacteristic figures are common in early-stage startups environments. Further, these metrics were being compared against more established retailers. Despite this inherent disadvantage, the new retailers demonstrated remarkably positive progress in the third month, showcasing strong performance despite their newcomer status.

F. An examination of the impact of provisions in laws and rules on cannabis licensees in the cannabis social equity program with respect to:

i) Permissible locations for the siting of licensed cannabis businesses, including distance restrictions in RCW 69.50.331(8), zoning or other location restrictions in local government ordinances, and local written objections under RCW 69.50.331(11)

The combination of state distance restrictions and local siting ordinances creates a barrier for cannabis businesses looking for a location. State RCW 69.50.331(8) prohibits retailers from being sited within 1,000 feet of specific sensitive areas, such as schools and parks, which limits available commercially viable real estate. LCB recently attempted to mitigate this issue by redefining how the 1,000-foot buffer is measured through a pre-proposal statement of inquiry. This would have helped increase the number of viable real estate options for SEC applicants by changing the measurement of distance from “shortest straight-line distancing” between property lines to “common path of travel” as it is currently defined for liquor licenses.

However, this rulemaking was subsequently withdrawn as there was pushback from cities and associations, such as the Association of Washington Cities, due to their position that redefining the existing regulation undermined the intent of the voter-approved initiative.[23,25] Notably, RCW 69.50.331(8) does permit local jurisdictions to reduce the 1,000-foot buffer zone to 100 feet for many of these areas except for elementary schools, secondary schools, and playgrounds. This means that local jurisdictions can enact more lenient standards if they choose.

Initial evaluations of other states found less restrictive buffer distances (e.g. 500 feet from schools) and providing alternative methods for measuring buffer distances.[26,27] For example, Alaska measures distance by the shortest pedestrian route from the public entrance of the licensed premises building to the outer boundary of school grounds.[26] Montana requires the distance be measured in a straight line from the center of the

nearest entrance of the entity to the nearest entrance of the licensee's premises.[27]

The written objection provision under RCW 69.50.331(11) grants cities and counties the authority to impose stricter zoning restrictions, establish outright bans (moratoriums), or object to a license application based on local concerns. This compounds the issue of permissible locations for those wishing to obtain a location. See Section E, Barrier 1 for more information on this limitation.

ii) The mobility of cannabis licenses to or between jurisdictions

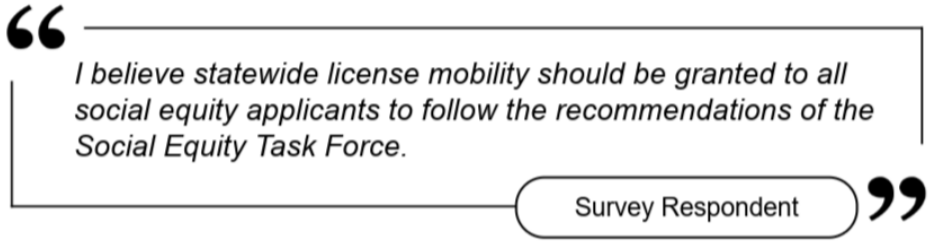
The mobility of cannabis licenses has changed over time due to feedback from license holders.[10,23] SEC licenses issued under SB 5080 will be able to have one-time portability, allowing the initial location to be in any city, town, or county in the state that allows cannabis businesses. However, after the license is issued to a specific retail location, it may not be moved to a different city or county.

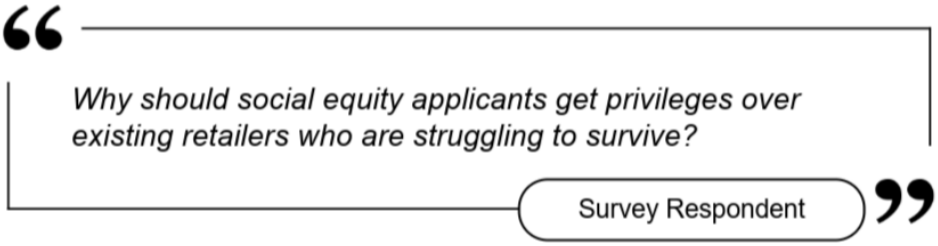
The issue of mobility remains a central concern for many SEC license holders, particularly for licenses awarded in the first round in HB 2870.[10,15] Unlike SB 5080, those who were awarded a license during the first application round were designated to a specific local jurisdiction and cannot move outside of their designated county.

> *Location is tough because we don't get to pick where we put our store or location is at. My store is all the way in Arlington, Washington. I stay in Spokane, Washington…*
>
> **Arlington is a 5-hour drive from Spokane with usual traffic.*
>
> SEC Retail Owner

To alleviate some of these barriers, WAC 314.55.570 set specific conditions by which those licensed under HB 2870 who remain unable to obtain a location can move their business beginning January 2026. The conditions include (1) if the qualifying licensee has not secured a location in the initial county they were designated, and (2) any relocation into a different county requires the qualifying social equity licensee to have received an application score which exceeds the lowest score awarded for successful applicants in the desired county. Title Certificate Holders (i.e., licensees who have been prohibited from operating in their jurisdiction) who are reinstating their license through this program cannot move out of their county.

Notably, there appears to be little consensus from the general community on the best course of action related to mobility. For example, results from the SB 5080 Rules Feedback Survey indicated that respondents (n=142) were roughly split on whether those who were approved under HB 2870 and unable to secure a location should be allowed to move their license (53% endorsed mobility) and whether to allow Title Certificate Holders who have been unable to secure a location and qualify under SB 5080 to move their license (50% endorsed mobility).[10]



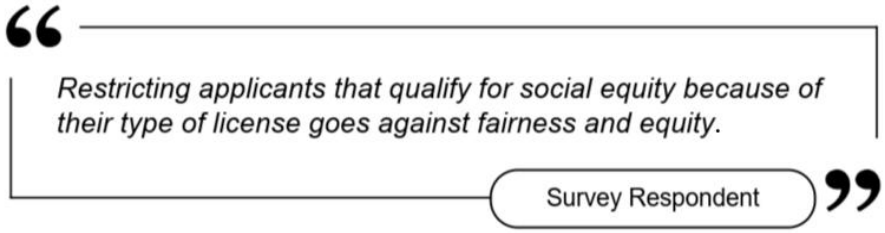


Notably, although some states have similar restrictions to Washington State, others are beginning to relax regulations that tie all licenses to specific counties. For example, Delaware allows cannabis businesses to transfer permits between counties to offer increased location opportunities.[28]

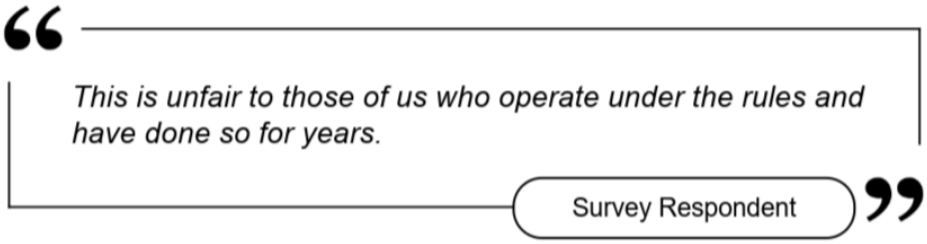
iii) The ability of persons holding an existing cannabis retailer license or title certificate for a cannabis retailer business to apply for a cannabis license under a cannabis social equity program, when the license or certificate holder is in a location within a local jurisdiction that is subject to a ban or moratorium on cannabis retail businesses

The provision to allow a person holding an existing cannabis retail license or title certificate to apply for a cannabis license under the SEC program has a dual impact, with both benefits and complications.

In terms of benefits, this provision allows historically disadvantaged groups that meet the qualifications set forth in the program to (1) move their cannabis business to a more viable location if they were originally sited in a jurisdiction with a local ban or moratorium, and (2) have more financial access and mentorship opportunities through the Social Equity Grant and Technical Assistance Program. The following quote, received from the SB5080 Rules Feedback Survey illustrates these benefits:



In contrast, some see this opportunity as more competition within the SEC program.[10,12] Their inclusion into this pool may additionally be seen as diluting the resources available for those who were not able to enter the market when adult-use cannabis sales began in Washington. This opportunity has also been seen as 'unfair' to those who have found locations in less-than-ideal spaces due to previous restrictions:



In general, the impact this has on the ability of persons holding an existing cannabis retail license or title certificate to apply for a cannabis license under the SEC program is positive for *that specific group*. However, it introduces a layer of complexity for those SEC applicants that have not yet entered the legal cannabis market.

iv) Prioritizing license applications through use of a third-party contractor, using a scoring rubric developed by the Board

The decision to score license applications through use of a third-party contractor, using the scoring rubric developed by the Board had two primary impacts: (1) Impartiality and (2) Applicant Burden.

1. Impartiality

LCB implemented the third-party contractor and double-blind lottery to manage the scoring of SEC applicants to enhance impartiality, reduce implicit bias, and reduce the perception of bias. This was also a recommendation from the Social Equity Task Force. The third-party contractor was also given the sensitive task of verifying highly personal information, such as criminal records.

The scoring rubric has been a central mechanism for achieving the program's goals. Due to the limited number of licenses available, there must be a way to rank applicants and determine who is most eligible for those licenses. During the development process of the scoring rubric, the weight assigned to each category underwent a comprehensive review and feedback process that included various

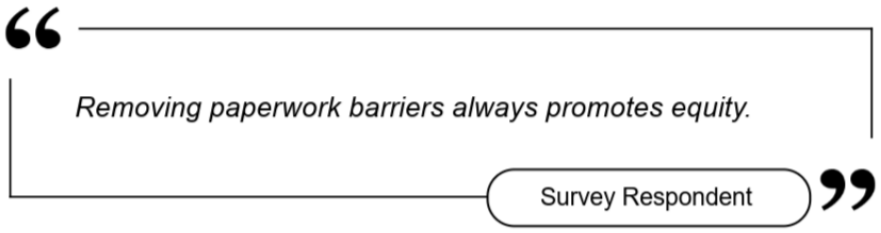
parties of interest and several revisions prior to being finalized. Nevertheless, the rubric's specific categories and their weights were contested by several groups. In the most recent social equity survey results, many answers were split almost equally by respondents.[10]

To succinctly agree about what makes someone "most impacted by the War on Drugs" and subsequently operationalize that into a scoring rubric is an inherently sensitive and difficult task. This was evident among many of the public comments provided at Board meetings where discussions on systemic racism and perpetuated injustices within government, including LCB, was a regular topic.[12] Speakers addressed the Board to share their personal accounts and lived experiences related to the government-sanctioned harms they, their family members, and communities have experienced.[12] There are inherent limitations of developing any rubric to quantitatively assess harm caused by the War on Drugs to rank-order those who have been most impacted. This challenge will always cause such an effort to fall short due to the vast complexities related to the lasting impacts of the War on Drugs.[29]

2. Applicant Burden

The scoring system was designed for objective scoring, but it created a significant administrative burden for applicants in the first round. In the end, the approach often favored those with financial and legal assistance.[9] The post-application Applicant Experience Survey indicated that the process of obtaining decades-old documentation was the most difficult step, and numerous applicants reported that it was either "hard" or "impossible" to obtain documents to verify criteria like "job or housing loss following a conviction," or even to show that a criminal charge was specifically related to cannabis.[9] Those who received a preliminary letter of approval were more likely to have received assistance from a lawyer or another licensee, indicating greater resources in general than others among the group who scored highest in the first round.[9]

Notably, to address this equity barrier for the subsequent licensing round under SB 5080, LCB made key revisions, such as allowing the use of signed affidavits to serve as primary or supporting evidence for certain claims (e.g., drug impact area residency) and increasing the weight of more readily verifiable items like low household income. These changes were made after a review of what documents were most difficult for applicants to provide. These adjustments demonstrate LCB's flexibility to lower administrative hurdles based on applicant feedback while ensuring that those who meet the intent of the program goals are able to score high on the rubric. Feedback from the SB 5080 Rules Feedback Survey also generally supported the move to greater use of signed affidavits with one survey respondent commenting:



v) Restrictions on the transfer or assumption of a cannabis license issued through the cannabis social equity program, other than to individuals or groups of individuals who comply with the requirements for initial licensure as a social equity applicant for a period of at least five years from the date of initial licensure

Restrictions on the transfer or assumption of SEC licenses were designed to ensure the benefits of the SEC program remain with individuals the program was intended to benefit and prevent the transfer of licenses to a non-qualifying entity. Given the length of time this program has existed, the net economic impact of the five-year restriction on license transfer is not fully known.

There has also been minimal public comment on this specific provision from those it is intended to benefit. One exception is a recent petition submitted to the Board, which requests a formal amendment to allow SEC owners to have the unrestricted right to sell, transfer, or otherwise convey their licenses to any person, group, or company of their choice.[30] In that petition, the rationale for unrestricted transfer/selling rights is to promote economic mobility and to allow business owners the same rights as the retail licensees outside the SEC program.[30] Because of the harsh market conditions, some retailers might wish to sell their business.[8]

In contrast, restricting the ability to transfer ensures that the license will stay within the community for which the SEC program was established for at least five years after the license was issued.

In general, this restriction *benefits* the buyer by reducing competition for the license and helping preserve the overall social equity goal. However, it is also a *detriment* to the seller, in that it prevents the original owner from achieving a high value-exit, thereby keeping them in a disadvantaged economic status. This policy thus creates a difficult trade-off between preventing license “flipping” and maximizing the potential for generational wealth that comes with long-term ownership for the original license holder.

vi) The definition of a "social equity applicant”

The impact of licenses with respect to the definition of a “social equity applicant” is a foundational question as it is a core tenet of who is eligible to receive these reserved licenses. First, the qualifications that define a SEC applicant first originated through multiple reviews of the core definition set in law in the original HB 2870 passed in 2020,

alongside recommendations from the SEC Task Force to LCB on establishing and implementing the program, and LCB refining and implementing rules for this program.[29] The initial definition was subsequently modified by SB 5080. The current definition, as posted on LCB's webpage, is the following:

"A Social Equity Applicant means an applicant that has at least 51 percent ownership by one or more individuals who meet at least two of the following qualifications:

1. Lived in a disproportionately impacted area in Washington State for a minimum of five years between 1980 and 2010;
2. Has been arrested or convicted of a cannabis offense or has a family member who has been arrested or convicted of a cannabis offense;
3. Had a household income that was less than the median household income within the state of Washington as calculated by the U.S. census Bureau;
4. Is both a socially and economically disadvantaged individual as defined by the Office of Minority and Women's Business Enterprises under Chapter 39.19 RCW."

There have been both positive and negative impacts of how a SEC applicant has been defined. As intended, licenses have been set aside and prioritized for those applicants who meet the definition of "social equity applicant." This definition limits the pool of competition, giving those who qualify an opportunity in the licensing process compared to the general public. Additionally, it requires that qualifying individuals maintain a minimum 51% ownership and control, which is intended to ensure control and wealth-building opportunities.

Notably, it is extremely difficult, if not impossible, to ensure the definition fully captures *everyone* who was harmed by the War on Drugs. The War on Drugs was a far-reaching systemic inequality that was and continues to be intertwined within many government systems and long-lasting community harms.[29] For example, although the 1972 National Commission on Marihuana and Drug Abuse unanimously recommended the decriminalization of personal possession and use of cannabis, President Nixon rejected those findings as a political strategy and it was subsequently classified as a Schedule 1 drug in the Controlled Substances Act, which still stands today. The Schedule 1 classification established the legal framework for decades of disproportionate arrests by law enforcement, mass incarceration, and the denial of federal resources, loans, and housing to those with cannabis-related offenses.[29] These harms have then rippled into subsequent generations, families, and communities.

The current operating definition of "social equity applicant" is often contested among various parties of interest and subject matter experts. For example, data from LCB's Rules Feedback Survey show that most survey respondents are often split between agreeing or disagreeing with a particular qualification, regardless of whether they qualify.[10] Defining and operationalizing "social equity" is a challenge because even those who support SEC have different definitions. Others oppose the program entirely, making it clear that regulators must navigate a wide range of conflicting views when attempting to adjust the definition.[10]

Policy Options

Policy options in this section will focus on findings related to the evaluation specified in SB 5167, Section 147(7). ***Please note this report may include policy options that are not endorsed by LCB or represent an official opinion of LCB.*** These options presented are a result of findings from peer-reviewed journal articles, public comments, subject matter experts, and others. Most policy options include a large fiscal note and may not be supported by all parties of interest.

Financial Support Options

- ***Increase Grant Support from COM:*** Insufficient startup awards can lead to business failure, particularly when awarding licenses to individuals who lack financial resources (by definition of the program) to fund a startup in a highly competitive market. Current startup estimates range widely with an average of about $450,000.[6-8,11]

- ***Broaden Scope of COM Eligible Grant and Loan Expenses:*** Allow funds provided to grant recipients to be used for a wider range of early-stage operational expenses, including working capital (e.g., cannabis inventory) for at least a defined initial period. Not allowing operating cash flow can provide a significant burden, particularly when licensing those without adequate economic resources. To enable the use of grant funds for purchasing cannabis inventory, the legislature may need to amend RCW 43.330.540 to explicitly expand “technical assistance” to include this type of eligible expense.

- ***Integrate Mandatory, Long-Term Technical Assistance and Mentorship:*** Access to capital alone is insufficient, particularly in a highly competitive market. As a result, all grant/loan recipients might benefit from participating in a structured, multi-year assistance program delivered by third-party business incubator with a focus on compliance, financial modeling, and supply chain logistics.

- ***Establish a Controlled Mechanism for Transfer of Social Equity Licenses:*** Determine whether the goal is to increase capital among those who were selected to be an SEC owner or to increase the diversity of those operating cannabis businesses in Washington. If it is the former, permitting SEC licenses to sell to a non-controlling equity stake would help raise capital as would allowing the sale of the full license after a vesting period. If the latter, ensure the SEC license stays in the hands of another business that meets criteria for that license.

Location Support Options

- ***Implement Increased Incentives and Penalty Structure for Local Jurisdictions:*** Local bans are the single greatest barrier preventing SEC licensees from securing a location. Increasing local distributions and/or dedicated infrastructure grants to local jurisdictions that actively lift bans may create favorable zoning for SEC licensees. However, this is challenging given the current fiscal budget outlook. Conversely,

imposing a penalty for jurisdictions that keep bans may disincentivize counties and cities from continuing restrictions. However, this would be unlikely due to this historical precedence of Washington State Law allowing local jurisdictions to enact their own regulations.

- ***Establish a State-Guaranteed Lease/Landlord Risk Mitigation Program:*** Create a fund or state guarantee to indemnify landlords against risks or perceived risks specifically associated with renting to SEC cannabis licensees. Although rent control is legal, there are historical Washington State laws related to its appropriateness.

- ***Change How Distance is Measured to Increase Location Opportunities*****:** LCB attempted to amend the current measuring method via rulemaking, but due to feedback from local jurisdictions, the rule proposal was withdrawn (See Section F, Subsection i). Therefore, changes to how distances are measured may need to be addressed by the Legislature.

Market Competition Options

- ***Expand License Options:*** Because of the saturation of the current market, introducing new license types for SEC programs could provide a new business opportunity. For example, some states (e.g., Massachusetts, Nevada, and Colorado) are allowing cannabis hospitality businesses within their social equity programs. However, new license types may face the same regulatory challenges with location availability, significant opposition from existing licenses based on competition concerns, and opposition from public health and prevention partners who argue against expanding the total available market. Some of these barriers could be reduced, however, by considering the current concerns of realtors and local jurisdictions. For example, allowing non-combustible cannabis products (e.g., vaped flower, infused drink and food products) to be sold and used at businesses as an adjunct feature (e.g., restaurant with edible appetizer options; pool hall with vaped cannabis only; comedy clubs with low-THC drinks) could be one way to minimize some of the concerns.

  There are potential license types that are not location dependent. For example, licenses that offer delivery services are a category that does not require specific site availability. Massachusetts offers both a “courier” license and a “delivery operatory” license, with the couriers being allowed to deliver cannabis products from a retail store to a patient or customer.[31] Delivery operators can buy from cultivators and product manufacturers to sell and deliver to consumers.[31] One large concern of a delivery license is increased risk of unauthorized access, particularly by youth. During the emergency rules for liquor delivery during the COVID-19 pandemic, it took more resources to conduct youth access compliance checks and compliance rates were lower on average compared to in-person compliance checks (82% for on-site vs. 63% for delivery). The exception was that, in the last year the emergency rules were in place, delivery compliance checks (n=48) had a compliance check of 81% relative to on-site compliance checks (n=2,221) of 74%. See LCB’s Compliance Check Dashboard to compare delivery to on-site checks. Notably, and across time,

cannabis compliance check rates have been higher than liquor compliance checks.

Important: Examining the economic viability of these potential expanded licenses are outside the scope of this report.

Future Evaluations

This analysis would benefit from expanded data collection and research to evaluate success over time.

Conclusions

This review was conducted by the Research Program at the Washington State Liquor and Cannabis Board in response to Engrossed Second Substitute Senate Bill 5167 (SB 5167), Section 147(7). Results from existing rules, CCRS, licensing data, survey data, historical and recent public comment, subject matter experts, SEC license holders, and other members of the public contributed to the findings of this report.

Overall, the SEC program has increased the diversity of cannabis retailers in the Washington State market. However, there are several barriers that have prevented these new businesses from operating. The three main barriers include:

(1) Inability to secure a location,
(2) Inadequate startup capital, and
(3) Highly competitive pre-existing market in the state.

LCB has received generous feedback from the public and has made considerable changes to the second round of SEC applicants under SB 5080. COM's grant and technical assistance program has provided significant support for those pursuing a license under HB 2870. However, the funds provided, and technical assistance do not compensate for the barriers outlined above.

Of those SEC licensed currently operating, some are achieving economically sustainable success. Some may reach levels of their non-SEC counterparts over time. The potential options outlined in this review offer potential paths forward for those who continue to struggle to achieve long-term sustainability in this market. The most opportunistic options that consider fiscal outlook include expansion of license types to allow new licensees to compete in a segment of the market that is less saturated.

Finally, this review was conducted within existing resources using emerging AI technology in collaboration with state partners and Microsoft. Although nascent, the use of AI in our review provided a framework for integrating public comments to ensure that unique voices with diverse perspectives were heard and efficiently weighed within data-driven insights. This review also provides a contextual framework for further exploration to structure, validate, and mature this new AI capability for equitable data governance across Washington State.

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Appendix A: AI Prompt

Please extract each from the transcript when they are provided by individuals external to the Liquor and Cannabis Board, otherwise known as LCB, and the comments made are specifically about the social equity in cannabis program. It is important to only capture comments of those who are not affiliated with LCB and when they are making a comment about the social equity in cannabis program. If an individual is affiliated with LCB, please exclude.

When providing responses, summarize if the response is longer than 150 words but make sure to include all important information, including main ideas and important details. Keep the order of the content logical. Remove any repetitive elements to make the summary as concise as possible without losing the original text's integrity. If the original text is 150 words or shorter, present it as originally stated. Condense the variable name/label in output to four words or less. Ensure that each individual that is included in the above criteria is listed in separate rows of data in output.

- Name
- Date
- Timestamp
- Affiliation
- Any mention of demographic group(s), including those mentioned as not being included or represented in this program (if yes, provide info. If no, say "no")
- Any critique of LCB related to social equity in cannabis program (if yes, provide info. If no, say "no")
- Any praise of LCB related to social equity in cannabis program (if yes, provide info. If no, say "no")
- Any critique of the application process (if yes, provide info. If no, say "no")
- Any praise of the application process (if yes, provide info. If no, say "no")
- Any critique of the third-party contractor, Ponder Group (if yes, provide info. If no, say "no")
- Any praise of the third-party contractor, Ponder Group (if yes, provide info. If no, say "no")
- Any critique of the Department of Commerce or grants provided (if yes, provide info. If no, say "no")
- Any praise of the Department of Commerce or grants provided (if yes, provide info. If no, say "no")
- Any information related to difficulty finding a business location (if yes, provide info. If no, say "no")
- Any information related to limited funds or money to start a business (if yes, provide info. If no, say "no")
- Any information on success stories for their business (if yes, provide info. If no, say "no")
- Any information related to "Title Certificate Holders" (if yes, provide info. If no, say "no")

- Any specific challenges or critiques related to the social equity in cannabis program mentioned that were not already captured (if yes, provide info. If no, say "no")
- Any suggestions for improvement for social equity in cannabis program (if yes, provide info. If no, say "no")
- Any suggestions for improvement for LCB related to the social equity in cannabis program (if yes, provide info. If no, say "no")
- Any information related to research and the social equity in cannabis program (if yes, provide info. If no, say "no")
- General Sentiment of the comment (concerns, mixed, neutral, support)
- Your level of confidence in the given parameters on a scale of 1 to 100
- The original Comment, up to four sentences
- Total number of concerns person mentioned
- Total number of support person mentioned

Appendix B: Eligible and Ineligible Expenses

This is a general list of eligible and ineligible expenses. Please note, some expenses can change category depending on conditional approvals tied to specific program exceptions on a case-by-case basis.

Eligible Expenses:

- Indirect and Direct operating expenses tied to the specific program/body of work
- Payroll & fringe benefits
- Travel in alignment organizations travel policy and with OFM: Travel | Office of Financial Management (wa.gov)
- Meals & Event expenses tied to the program and are justifiable
- Legal and Audit expenses (must be tied to the program/body of work)

Ineligible Expenses: (These are not to be billed toward the program expenditures)

- Bills for taxes including County property tax and State Excise, B&O or Sales tax
- Federal or State Expenses – including professional licenses and driver's licenses
- Capital Expenses – car/truck/van/boat - vehicle payments are not eligible
- Land Acquisition – this pertains to new land acquisition
- Lobbying or political influence
- Office equipment – desks, chairs, tables, file cabinets, and cubicle wall structures
- Purchase/Lease of Equipment-this includes computers, laptops, tablets, monitors, printers, multi-function copier/printers, computer-related software (unless they are supplies used as part of your business service (resale items), i.e. selling computers, selling software etc.)
- Alcohol – not eligible for hosted events etc., like a business meeting expense, during travel, at dinners, as gifts, or for a retirement party
- Any and all expenses incurred prior to the execution of the contract
- Deposits/down payments – refundable expenses
- Pre-payments of any kind
- Unapproved sub-contracts or expenses not approved by the agency in advance (not properly procured in alignment with contract expectations