



Washington State Liquor and Cannabis Board

Mission

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

Annual Report

Fiscal Year 2017

Goals

- Ensure the highest level of public safety by continually improving and enforcing laws, regulations, and policies that reflect today's dynamic environment.
- Inform and engage licensees, the public, and stakeholders in addressing issues related to our mission.
- Promote a culture that inspires and values a highly-motivated, competent, and diverse workforce that establishes the WSLCB as the employer of choice.
- Ensure operational excellence.

Values

- Respect and courtesy
- Professionalism
- Open communication
- Accountability and integrity
- Continuous improvement and meaningful results
- Customer focus

Vision

Safe communities for Washington State

Introduction

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Washington State Liquor and Cannabis Board

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To obtain this publication in an alternative format,
contact the agency ADA coordinator at (360) 664-1785.



LCB leadership receive the Yes/Vets award from the Washington State Department of Veterans Affairs for the agency's exemplary efforts in hiring veterans.

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Message from the Board

Dear Citizens of Washington,

It is our pleasure to present to you the Fiscal Year 2017 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 2017 (July 1, 2016 – June 30, 2017).

Highlights of FY 2017

After a brief departure to the private sector, Russ Hauge was reappointed to the Board in February, 2017, returning it to full capacity. Russ was initially appointed to the Board in February of 2015 and served until March of 2016 before leaving for a position with the Council of State Governments Justice Center.

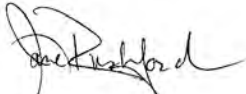
The agency has continued to provide leadership in regulating the cannabis, alcohol, tobacco and vapor industries, implementing several new laws and rules to increase public safety and consumer protection for the citizens of Washington. At the same time the LCB has undertaken a series of technology initiatives to modernize our systems and better serve our customers.

Highlights

- Partnered with the Washington State Department of Agriculture to fund and create a dedicated marijuana pesticide testing lab. The agreement is the first of its kind and significantly expands the state's ability to test for illicit pesticide use and increases consumer protection.
- Adopted a "Not for Kids" warning symbol that must be used on all marijuana edible products. The symbol was developed and launched in partnership with the Washington Poison Center as a deterrent for children who may access edible marijuana products.
- To reduce the safety risks associated with large amounts of cash the Board began requiring licensees to pay excise taxes by means other than cash. Licensees who are unable to pay in a method other than cash must secure a waiver. Since implementing the policy cash payments have shrunk to less than seven percent.
- Expanded the use of technology to further communication between licensees, the public and the Board. In FY 2017, the agency invested in new software and boardroom cameras to webcast all board meetings. In addition, the agency launched quarterly e-newsletters to both the marijuana and alcohol industries.

These are just a few example of the of the agency's work in FY 2017. We hope you find the contents of this report valuable and informative.

Sincerely,



Jane Rushford
Board Chair



Ollie Garrett
Board Member



Russ Hauge
Board Member



Rick Garza
Director

Board/Director Biographies

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 non-profit organizations, including Girl Scouts of Western Washington, Boys and Girls Club/SMART Girls Program, 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.

Russ Hauge, Board Member

Russ Hauge, of Kitsap County, was appointed to the Board in February 2015. Prior to joining the Board, he spent 33 years as a practicing lawyer. In his early career, he worked ten years in a small Port Orchard law firm representing individuals and businesses. He was first elected Kitsap County's Prosecuting Attorney in 1994 and held that position until Dec. 31, 2014.



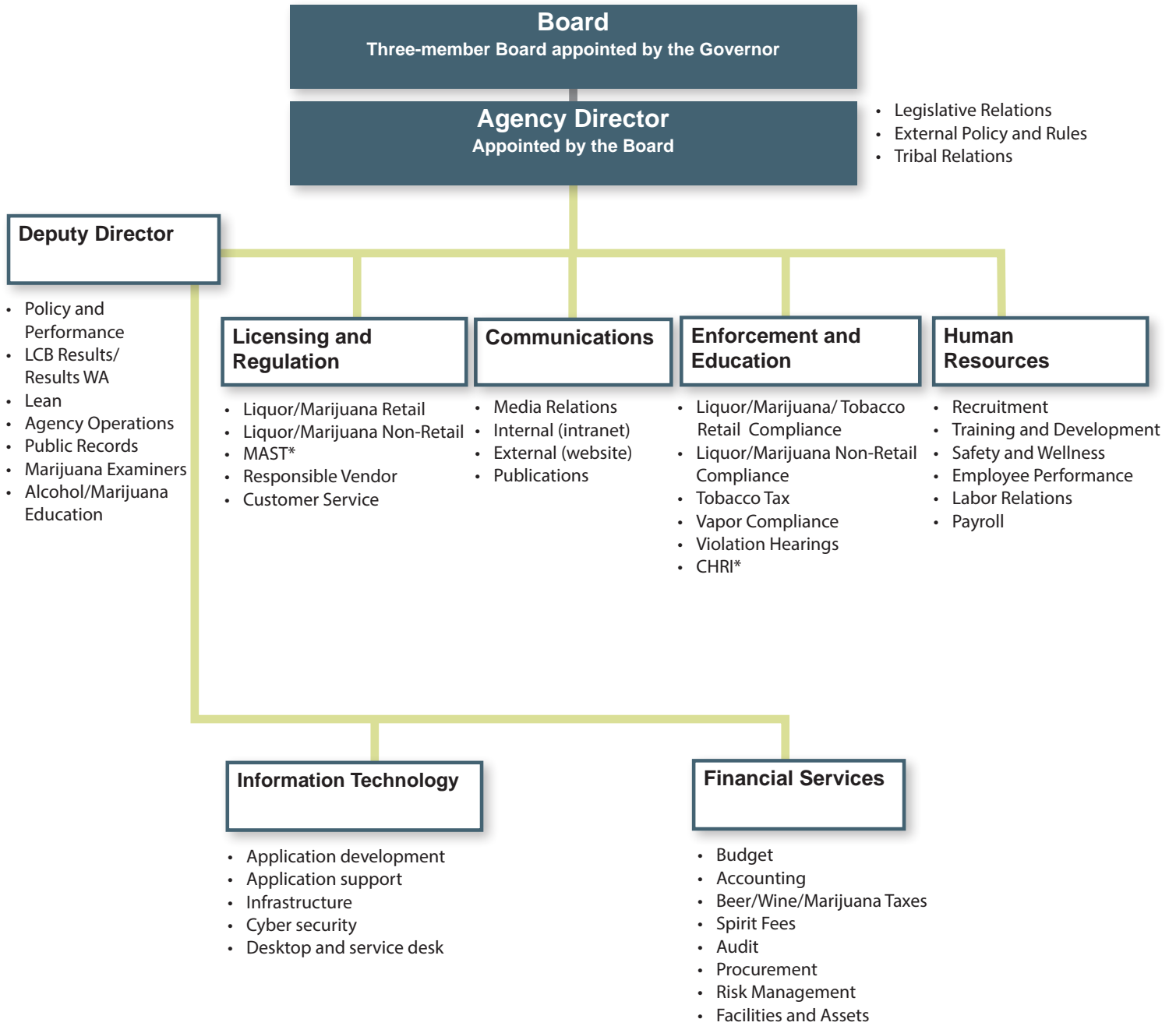
As Kitsap County's prosecutor, Russ was a member of the Washington Association of Prosecuting Attorneys (WAPA). He has served as WAPA's President, chair of its Legislative Committee, and as its representative on the State Sentencing Guidelines Commission, the Supreme Court's Minority and Justice Commission, the Sex Offender Policy Board, and the Washington Partnership Council on Juvenile Justice. Most recently, Russ served as a Senior Policy Advisor at the Justice Center of the Council of State Governments and has been appointed to serve as the Chair of Washington's Sentencing Guidelines Commission.

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.



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 cannabis laws and regulations to promote public safety. Officers also provide education to licensees, communities and local law enforcement agencies.

FY 2017 Staffing Chart

| | |
|-----|------------------------------|
| 163 | Staff |
| 1 | Chief |
| 1 | Deputy Chief |
| 1 | Commander |
| 5 | Captains |
| 23 | Lieutenants |
| 102 | Officers |
| 1 | Evidence Coordinator |
| 1 | Hearing Officer |
| 1 | Management Analyst |
| 1 | Program Manager |
| 2 | Criminal Records Coordinator |
| 11 | Support Staff |
| 3 | Investigative Aides |
| 1 | FDA Supervisor |
| 1 | FDA Program Specialist |
| 8 | FDA Inspectors |

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.

| |
|--|
| Region 1 – Southwest Washington |
| Regional Office: Tacoma |
| 4,597 Licensees / 18 Enforcement Officers |
| Region 2 – King County |
| Regional Office: Federal Way |
| 4,544 Licensees / 19 Enforcement Officers |
| Region 3 – Northwest Washington |
| Regional Office: Mount Vernon |
| 3,603 Licensees / 12 Enforcement Officers |
| Region 4 – Central and Eastern Washington |
| Regional Office: Spokane |
| 3,567 Licensees / 15 Enforcement Officers |

Retail Enforcement

Retail Enforcement strives to protect and serve the public by ensuring the legal and responsible sale of alcohol, tobacco, and cannabis 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 cannabis laws.

When a business violates a law, officers consider the totality of the circumstances and are



LCB Enforcement officers visit with a licensee

Enforcement and Education

FY 2017 Key Enforcement Activities

| |
|---|
| 60,177 officer contacts |
| 23,803 liquor premises checks |
| 4,754 tobacco premises checks |
| 2,322 complaint investigations |
| 5,153 licensee support visits |
| 3,048 liquor compliance checks |
| 1,621 tobacco compliance checks |
| 1,894 enforcement actions |
| 154 responsible sales training classes |
| 692 online responsible sales classes |
| 2,279 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 |
| 1,919 Licensees / 6 Enforcement Officers |

Cannabis 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. No-sales-to-minors compliance rates were at 90 percent for FY 2017.

Cannabis Enforcement

| |
|---|
| Statewide Unit |
| 1,362 Licensees / 17 Enforcement Officers |



LCB Enforcement officers seize plants from an illegal grow operation

Tobacco Tax Enforcement

The Tobacco Tax unit has 11 commissioned full time employees inside the Washington State Liquor and Cannabis Board. This dedicated unit pursues strategies to reduce the amount of smuggled, contraband, and otherwise untaxed cigarette and tobacco products in the state. Since its inception the unit has referred over 25 million dollars worth of referrals to state agencies on untaxed products.

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

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

Vapor Enforcement

On June 28, 2016, the legislature adopted new laws to regulate vapor products. The expressed purpose of these laws is to provide Washington residents with consumer protection increase child safety and eliminate youth access. The changes introduced new vapor licensing requirements and fees to the previously unlicensed industry. These additional vapor product responsibilities are assigned to a newly formed Vapor Enforcement team comprised of one lieutenant and four officers.

| Vapor Enforcement |
|--|
| Statewide Unit |
| 1,386 Licensees / 5 Enforcement Officers |

Areas of Focus in FY 2017

Alcohol Compliance Efforts

To ensure compliance and prevent sales of alcohol 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 alcohol industry. Officers conduct premises checks and formal classes at many locations to support alcohol 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 alcohol 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 2017 had an average of 21 incidents which was a 9 percent increase from the FY 2016 averages. This marks the end of a three year trend of reduced incidents at these locations.



Lieutenant Rafael Lucatero conducts overservice training as part of the LCB's Overservice educational video for licensees.

Enforcement and Education

Top Public Safety Violation Types in FY 2017

Violations can result in Administrative Violation Notices (AVNs) or warnings. There were 912 violations in the top three categories, with 869 AVNs issued resulting in fines or license suspensions.

Sales or service to minors (alcohol)

- 550 violations
- 536 AVNs issued
- 14 warnings issued

Sales of tobacco to a minor

- 211 violations
- 211 AVNs issued
- 0 warnings issued

Sales/service to apparently intoxicated person

- 78 violations
- 50 AVNs issued
- 28 warnings issued

Sales or service to minors (cannabis)

- 73 violations
- 72 AVNs issued
- 1 warning issued

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.



Licensing and Regulation Division

The Licensing and Regulation Division is responsible for assessing, licensing, and maintaining liquor and cannabis licenses for retail, non-retail and distribution businesses.

Employees:

- Determine if new and current businesses are qualified to hold a liquor or cannabis license;
- Educate and engage licensees, the public and other stakeholders in understanding issues related to alcohol, cannabis and tobacco;

- Review, assess, and issue updates to existing liquor and cannabis businesses. Updates include (but are not limited to) changes in: operating plans, location, governing people, and endorsements;
- Create a culture that fosters excellent customer service, open communication, transparency, accountability and data driven decisions;
- Provide oversight for the Mandatory Alcohol Server Training (MAST) program for workers who serve alcohol. In FY 2017, 45,525 MAST Permits were issued;
- Provide education about off premises alcohol sales via the Responsible Vendor Program (RVP) to 1,840 businesses; and
- Process special occasion license applications for 6,742 nonprofit organization events.

| New Retail Liquor Licenses Issued | |
|------------------------------------|-----|
| Beer and Wine Restaurants | 370 |
| Beer and Wine Specialty Shops | 64 |
| Catering | 8 |
| Grocery Stores | 178 |
| Hotels | 15 |
| Night Clubs | 16 |
| Spirits, Beer and Wine Restaurants | 317 |
| Snack Bars | 30 |
| Spirit Retailers | 10 |
| Taverns | 26 |
| Theaters | 5 |
| Other | 35 |

| New Non-Retail Liquor Licenses Issued | |
|---------------------------------------|-----|
| Farmer's Markets | 13 |
| Distributors | 21 |
| Distilleries | 12 |
| Breweries | 59 |
| Wineries | 73 |
| Certificate of Approvals | 281 |
| Other and Endorsements | 143 |

| | Active License Count | | | | | | | |
|---------|--|--------------------------------|-----------------------|--------|-------|-----------|-------|--------|
| | Grocery, Beer/Wine and Specialty Shops | Spirits Retail Off/On Premises | Beer/Wine On Premises | Tavern | Hotel | Nightclub | Other | Total |
| 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 |
| FY 2017 | 5,815 | 7,018 | 3,924 | 254 | 198 | 139 | 924 | 18,298 |

Licensing and Regulation

Liquor Licensing

The Liquor Licensing Unit processes applications for both retail and non-retail licenses. The Retail Licensing Section process applications for establishments that sell alcohol for on-premises consumption and off-premises consumption directly to the consumer. The Non-Retail Section processes applications for manufacturers, importers, wholesalers, and distributors of alcohol products. In FY 2017, they received over 3,800 applications for liquor licenses.

Process Improvement

The Liquor Licensing Unit integrated several successful improvement projects into their processes.

Application Submittal Timeframes: Investigators began asking applicants to apply for liquor licenses within 90 days of their anticipated opening date. Previously, there were no time constraints on when an applicant could apply. Many applicants were applying very far in advance and not ready to meet licensing requirements.

Alcohol and Tobacco Tax and Trade Bureau (TTB) permit: All applicants applying for a non-retail liquor licenses are required to obtain their TTB Federal Permit before applying. Many applicants were applying for a license before obtaining a TTB permit. This caused applications to sit and wait until TTB approval.

These changes have decreased processing times, placing the percentage of applications completed within 60 days at 68 percent.

Cannabis Licensing

The Cannabis Licensing Unit processes applications for cannabis retailers, producers, processors, transporters and researchers. They have issued over 1,300 licenses throughout the state. Additionally Cannabis Licensing registers medical cannabis cooperatives throughout the state.

Licensed Cannabis Businesses

| | |
|--------------------|-------|
| Producer/Processor | 1,009 |
| Producer | 159 |
| Processor | 167 |
| Retail | 507 |
| Cooperatives | 13 |
| Transportation | 11 |

Cannabis licensees are required to obtain approval from the LCB before making any changes to their existing business. The Cannabis Licensing Unit has received a significant increase of change request applications in FY 2017. Typically, change requests require an in-depth investigation of the alteration and financing before they can be approved. They process the following types of change request applications:

- Change of Ownership
- Assumption of Business
- Operating/Site Plan Changes
- Added Financier
- Change of Location

Cannabis Change Applications Approved

| | |
|------------------------|-----|
| Producer and Processor | 795 |
| Retail | 243 |



Licensing Investigator Brian Lindstrom learning about cannabis production firsthand during a site visit.

Licensing and Regulation

Customer Service

The Customer Service Unit responds to over 2,800 phone calls and requests for assistance per month. Customer Service Specialists and Support Staff issue special occasion licenses, permits, and assist with liquor and cannabis licenses. Customer Service also processes alteration requests for liquor licenses. Licensees are required to submit an application and receive approval for all changes made to the licensed premises. In FY 2017, they approved over 290 alteration requests.

Additionally they review thousands of labels for spirit, beer and wine products to ensure compliance with state law.

| FY 17 Permits Issued | |
|---------------------------|-------|
| Special Occasions License | 6,742 |
| Raffle Permit | 264 |
| Agent's License | 3,255 |
| Other | 1,447 |

Education and Outreach

The Education and Outreach Unit manages two programs to support and educate people who sell alcohol, the Responsible Vendor Program (RVP) and the Mandatory Alcohol Server Training (MAST). RVP is a free, self-monitoring program for off-premises liquor establishments designed to help adopt and enforce best practices to ensure liquor is sold responsibly. A MAST permit is required by law for anyone who serves, mixes, sells, or supervises the sale of alcohol for on-premises consumption.

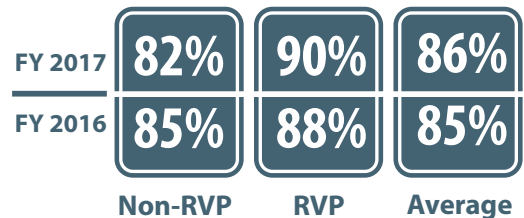
The Licensing Division regularly provides training and outreach opportunities for applicants and licensees. In FY 2017, employees participated in over 12 events that addressed topics including special occasions, cannabis research licenses, permits and liquor sales in grocery stores.

Customer Satisfaction Survey

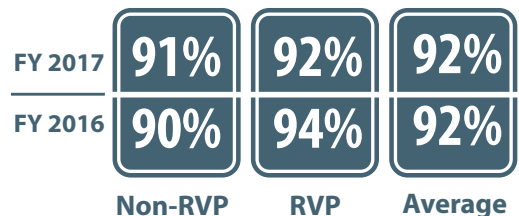
After each application is completed, applicants are surveyed for feedback on the licensing process. The comments from our customers give Licensing the opportunity to review and improve on processes. As a result, the Division has further streamlined practices, improving overall processing time and customer satisfaction.

| Unit | Moderately to Extremely Satisfied |
|--------------------|-----------------------------------|
| Customer Service | 99.49% |
| Liquor Licensing | 91.12% |
| Cannabis Licensing | 86.51% |

Compliance Rates Comparison for Off Premises Beer and Wine Retailers



Compliance Rates Comparison for Off Premises Spirits Retailers



Public Health Awareness

Alcohol and Cannabis Education

The Alcohol and Cannabis Education program supports the public safety mission of the agency by addressing the prevention of underage drinking and cannabis use and the reduction of high risk use by adults. The WSLCB engages many agencies and statewide organizations to coordinate efforts and align work toward the common goal of healthy and safe communities for all Washington's citizens.

Providing research-based information and eliciting stakeholder feedback to inform policy work is also a component of this program, particularly in the rapidly changing landscape of legalized cannabis use. Public health and prevention stakeholders connect regularly with this program to get up-to-date information, better understand rules and legislation (both current and proposed), request a speaker, and seek resources.

Educating and Engaging

Information and resources for cannabis and alcohol education and underage prevention efforts are provided through in-person presentations, webinars, social and traditional media, and responses to individual requests. In FY 2017, the Public Health Education Liaison:

- Provided 20 presentations for local, state, national, and international groups, reaching over 2,200 people.
- Responded to over 220 requests for information.
- Worked with stakeholders in 27 of Washington's 34 counties.

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.

The WSLCB Public Health Education Liaison serves as co-chair of the Washington Healthy Youth (WHY) Coalition and serves on the Coalition's Communication and Policy workgroups. The Communications workgroup supported the statewide cannabis education media campaign during FY 2017 in an advisory capacity. With representatives from behavioral health, treatment, public health, law enforcement, education, prevention-based coalitions and others, the WHY Coalition works strategically to coordinate efforts, avoid duplication and maximize resources.

Our agency continues to be a sponsoring agency for the biennial Washington Healthy Youth Survey and the annual Washington Prevention Summit. As such, staff participate in the Healthy Youth Survey Planning Committee as well as the Summit Planning Committee. Additional involvement includes the Strategic Prevention Enhancement Consortium, the WA Impaired Driving Advisory Council, and the Cannabis Interagency Group.



**EMERGENCY
(800) 222 1222**

Not for Kids warning symbol required on all cannabis infused edible products

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 2017, 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.

Enforcement Chief Justin Nordhorn has previously 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. Regular 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

Lean Efforts

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 2017, the Lean Program supported agency projects and modernization efforts by assisting in the creation of workflows to illustrate future state processes. Those workflows were used to help the modernization project vendors better understand our work and desired outcomes. In addition the agency concluded its consulting agreement with the Department of Enterprise Services (DES) to further enhance the agency's culture, Lean thinking and daily practices. The partnership focused on building team problem solving capability through mentoring by DES consultants.

Key Lean Results

Procurement Process

The Operations Support Unit handles procurements for the agency. By acquiring resources and tools faster the agency can better serve the public and customers. Working with internal customers of the LCB, they gathered feedback about the process from customers. The team conducted root cause analysis, clarified roles and responsibilities for all involved in the process and developed an expectation document that is shared with the stakeholders at the beginning of the procurement consult process. At the end of the Lean Activity, the team had achieved the following results:

- Decreased the time it took to provide status updates to customers by 66 percent
- Increased meeting their target timeline from 81 to 94 percent
- Reduced work processing barriers from average of 32 to 22 per day

Contract Workload Report

Within the Contract Team, one individual compiles a report for the team to work from each week.

Before the improvement project, it took 33 steps and 5 hours to compile the contract workload report. The team researched options to add new records without refreshing and compiling the entire data set each week and found tools with automation and collaboration features. These tools reduced the reliance on one team member, reduced wait time while the report is compiled. After the Lean Activity, the team was able to decrease the time spent compiling the report from 5 to 1.5 hours per week and decreased the steps in the process from 33 to 22.

In-Person Tax Payments

The Cannabis Tax Team sought to improve the cannabis excise tax payment process. Due to public safety concerns, they sought to reduce the number of licensees that were paying taxes in cash at agency headquarters. Before the Lean Project, 27.4 percent of licensees were paying by cash in the agency lobby. Three customer surveys were completed to determine why licensees were paying by cash vs. other payment methods. The team worked to update rules and policies to include all payment types except cash, and provided a temporary cash waiver for those licensees that are unable to secure a bank account. The team was able to reduce the number of cash payments from 27 percent in February 2016 to 7 percent in December 2016.

Income

Liquor Taxes and License Fees (includes penalties)

| | | |
|-------------------------------------|---------------|---------------|
| Spirit Fees | \$129 million | \$135 million |
| Beer Tax | \$31 million | \$29 million |
| Wine Tax (not including assessment) | \$25 million | \$26 million |
| Liquor License Fees | \$15 million | \$17 million |

Total Liquor Income

\$201 million **\$206 million**

Cannabis Taxes and License Fees (includes penalties)

| | | |
|-----------------------|---------------|---------------|
| Cannabis Tax | \$186 million | \$315 million |
| Cannabis License Fees | \$3 million | \$4 million |

Total Cannabis Income

\$189 million **\$319 million**

Tobacco

| | | |
|------------------------|-----|-------------|
| Tobacco Related Income | \$0 | \$1 million |
|------------------------|-----|-------------|

Total Tobacco Income

\$0 **\$1 million**

Total Income

\$390 million **\$526 million**

Expenses

Operating Expenses

| | | |
|-------------|--------------|--------------|
| Licensing | \$5 million | \$5 million |
| Enforcement | \$13 million | \$14 million |
| General | \$16 million | \$22 million |

Total Operating Expenses

\$34 million **\$42 million**

Distributions/Appropriations

| | | |
|--|---------------|---------------|
| Distributed to State/Local Governments | \$313 million | \$414 million |
| State Agency Appropriations | \$31 million | \$54 million |

Total Distribution/Appropriations

\$344 million **\$467 million**

Total Expenses/Distributions

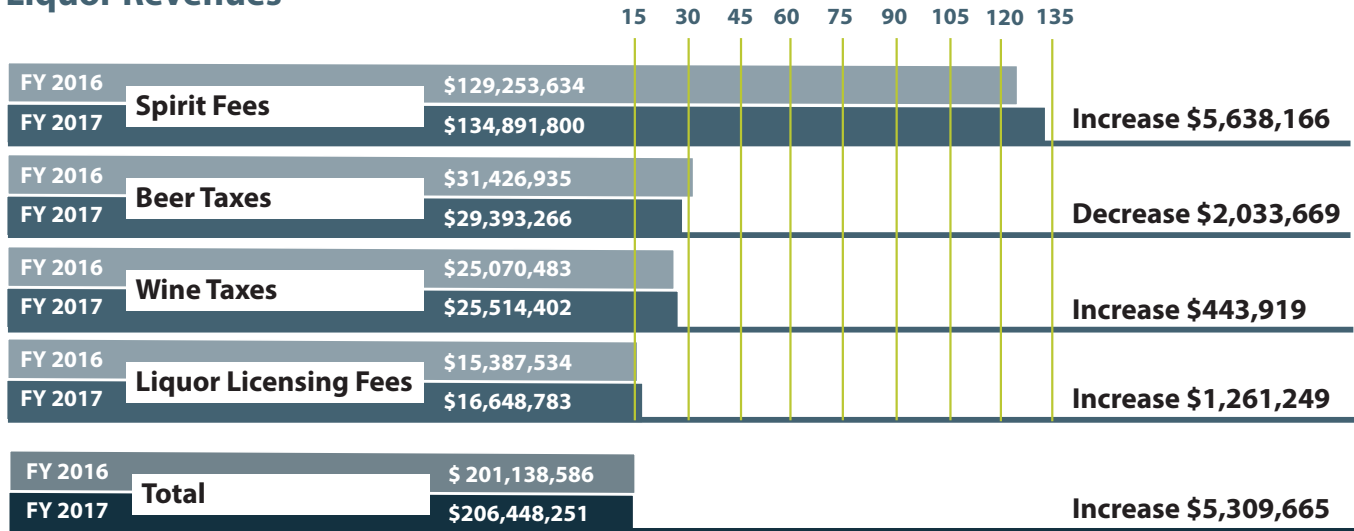
\$378 million **\$510 million**

Note: Amounts may not add due to rounding.

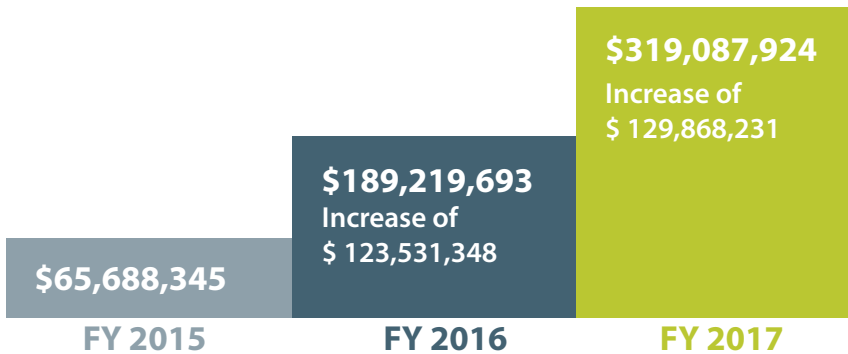
Financial Statement

Total Income Comparison Between 2016 and 2017

Liquor Revenues



Cannabis Revenues



Attendees of the first ever multi-state Cannabis Regulators Summit, hosted by the LCB in 2017

Revenue Distribution

General Fund - \$201.3 Million

| | |
|-------------------------|---|
| Liquor \$104.7 Million | Revenue sent to the state General Fund is used to provide much-needed additional resources for education and other critical state services. |
| Cannabis \$96.6 Million | |

Basic Health - \$145.7 Million

| | |
|--------------------------|-------------------------------|
| Cannabis \$145.7 Million | To fund health care services. |
|--------------------------|-------------------------------|

Cities, Counties - \$55.5 Million

| | |
|-----------------------|---|
| 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. |
| Cannabis \$6 Million | Cannabis revenue sent to cities and counties is used for enforcement purposes. |

Education, Prevention - \$44.1 Million

| | |
|-------------------------|---|
| Liquor \$9 Million | For alcohol and substance abuse programs administered by the Division of Behavioral Health and Recovery including community-based initiatives to reduce underage drinking. |
| Cannabis \$35.1 Million | To distribute public education materials about the health and safety risks of cannabis; to fund substance abuse programs and mental health services; to fund a cannabis education/public health program and grant programs for the prevention and reduction of cannabis use by youth. |

Research - \$2.7 Million

| | |
|----------------------|--|
| Liquor \$1.7 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. |
| Cannabis \$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 cannabis use. |

Other - \$17.4 Million

| | |
|-------------------------|--|
| Liquor \$2.3 Million | For the Department of Commerce to contract with the Municipal Research Services Council. |
| Cannabis \$15.1 Million | Funds grants to support Building Bridges programs; and for Health Care Authority funding for community health centers. |

2017 Enacted Liquor and Cannabis-Related Legislation

E2SHB 1351– Combination Spirits, Beer and Wine Off-Premises Retail License

Creates a combination spirits, beer, and wine (combination license) authorizing the sale of spirits, beer, and wine at retail for off-premises consumption.

- The holder of the combination licensee may sell spirits at retail without obtaining a separate spirits retail license;
- The holder of the combination license is eligible for the same liquor license endorsements available to grocery store and beer and/or wine specialty shop licenses;
- Current grocery store licensees may apply for a combination license to allow the sale of spirits provided that the requirements for the license are met;
- Current beer and/or specialty shop licensees may apply for a combination license to allow the sale of spirits provided that the requirements for the license are met;
- Allows a former contract liquor store holder or the holder of a former state liquor store operating rights sold at auction may be eligible for the combination license; and
- Exempts former contract liquor stores and holders of former state liquor store operating rights from the 17 percent license issuance fee for a combination license.

ESB 5665 - Credit Card use by On-Premises Licensees for Purchases of Alcohol

A licensed distributor of spirits, beer, and/or wine is authorized to impose a credit card fee on a purchaser licensed to sell spirits, beer, and/or wine for on-premises consumption under the

following conditions:

- The decision to make payment by credit card is voluntary; and
- The credit card fee is explicitly disclosed as a separate line item on the distributor's invoice.

ESB 5834 - Bonded and Non-bonded Spirits Warehouse License

Creates a new license for bonded and non-bonded spirits warehouses which authorizes:

- The storage and handling of bonded bulk spirits;
- The storage of bottled spirits; and
- The storage of tax-paid spirits not in bond.

ESSB 5131 - Mead – Alcoholic Beverage

Defines mead in statute as a wine or malt beverage where honey represents the largest percentage offermentable sugars. This also sets limits for which licensees may fill/sell growlers of mead and alcohol content limit.

HB 1250 - Authorizing retail marijuana outlets to give a free lockable drug box to adults age 21 years and over and to qualifying patients age eighteen years and over subject to restrictions

Allows marijuana retail stores to provide customers with a lockable box for the secure storage of marijuana. Retail stores may receive lockable boxes and related literature as a donation from another person or entity to distribute to customers, and may purchase and sell lockable boxes to customers with some restrictions.

HB 1718 - Wine Auction Permit

Creates a wine auction permit issuable to a nonprofit organization which must be submitted prior to the event. The permit allows the nonprofit organization to sell wine through a private auction not open to the public.

It also allows the holder to conduct wine tastings at the auction of the wine to be auctioned at the event.

SB 5130 - Marijuana License Fee Increase

This bill authorizes the WSLCB to impose a temporary additional fee of \$480 on marijuana license applications and renewals where the date of the license expiration is on or after June 30, 2017. Revenues from this additional fee will be used for the replacement of the WSLCB's traceability system. The temporary additional fee will expire June 30, 2018.

SB 5130 also increases the marijuana license fees by \$300 beginning July 1, 2018, making marijuana annual license fees \$1300 per license, which will provide ongoing funding for the seed to sale traceability system. This increase is permanent and does not expire.

SHB 1038 - Winery Additional Locations

The number of additional winery locations are increased from two to four.

SHB 1462 - Marijuana - Infused Edibles – Regulations – Department of Agriculture

Requires the Washington State Department of Agriculture (WSDA) to regulate marijuana-infused edible processing the same as other food processing under the state and

food processing act. This bill also requires a marijuana processor that processes, packages, or makes marijuana-infused edibles to obtain an annual marijuana-infused edible endorsement from the WSDA. The WSDA was granted rulemaking authority, consistent with Washington State Liquor and Cannabis Board (WSLCB) and Department of Health (DOH) rules.

SHB 1902 - Caterer's Endorsement for Tavern Licenses

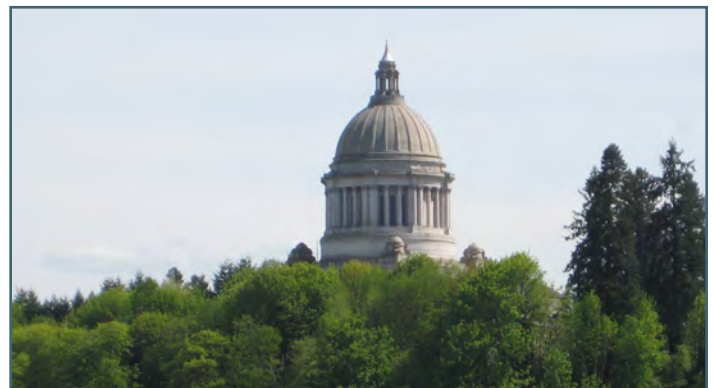
Creates a caterer's endorsement that allows a tavern licensee to remove beer and wine from the licensed premises under specific circumstances.

SSB 5537 - Spirits Distributors Selling Spirits to Employees

Allows licensed spirits distributors to sell spirits directly to full-time employees of the spirits distributor if the spirits cannot reasonably be sold in the normal course of business, such as damage to the label on individual bottles.

SSB 5589 - Distillery Samples and Sales

Allows a distillery to provide samples under specific conditions



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Washington State Liquor and Cannabis Board

Mission

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

lcb.wa.gov