



Washington State
Liquor and Cannabis Board

Annual Report Fiscal Year 2019



Union Tower

The Liquor and Cannabis Board's new headquarters building at
1025 Union Avenue SE, Olympia, WA

Established: June 2019

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The Project Design Team for Headquarters 2.0 was recognized at the WSLCB Formal Recognition event with the Outstanding Team Performance Award this year. Back row: Tina Huesca, Amy Sharar, Jim Morgan, Gretchen Frost, Monika Taylor, Dustin Dickson. Front row: Sue LaVoie, Terri Noble, Melisa Valdez, Edmon Lee.

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Washington State Liquor and Cannabis Board

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Message from the Board

December 2019

Dear Residents of Washington,

We are proud to present the Fiscal Year 2019 Liquor and Cannabis Board (LCB) Annual Report. This report provides details about the agency's accomplishments and operations throughout Fiscal Year 2019 (July 1, 2018 – June 30, 2019).

Highlights of Fiscal Year 2019

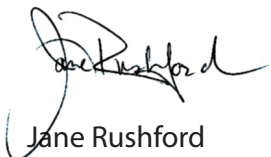
Collaboration. The LCB continued its efforts to engage our stakeholders and the public in 2019. Numerous workgroups, stakeholder workshops, and listening forums intended to guide our rulemaking were common in FY 2019. LCB employees worked with stakeholders to; allow curbside service of alcohol, modified the age-restricted barriers to meet today's changing hospitality environment, simplified and clarified the cannabis packaging and labeling rules, revised the enforcement penalty guidelines to be less restrictive, and updated the cannabis quality control rules. Through increased collaboration in FY 2019, we achieved more consensus and understanding while striving to meet respective goals.

Cannabis 2.0. This year marked the five-year anniversary of LCB's issued cannabis retail licenses. Today's rapidly maturing industry and marketplace looks so different from its inception that it's hardly recognizable. So much has changed. This year, the Board developed and took its first steps toward its vision of Cannabis 2.0. The 2.0 reference is the Board's recognition of the changes that have taken place since it drafted the original rules. In FY 2019, the Board began, and will continue in the coming year, actions that will reflect changes within the industry and how we regulate.

Government to Government Relations. In April 2019, the LCB revived our Tribal Advisory Council. It was paused during the initial cannabis compacting efforts with several federally recognized tribes. The first Council meeting in six years was hosted by the Suquamish Tribe. Several tribes from around the state attended the meeting where we discussed the rulemaking and cannabis compacting process and bills of interest introduced during the 2019 legislative session. LCB met with several tribes to update our Government-to-Government Consultation Policy that was developed in 2009, before Washington legalized adult-use cannabis. We are working with our tribal partners to update the policy so that it accurately describes the full scope of our current work, and how our relationship with tribal governments function.

Thank you for your interest in the efforts of the Washington State Liquor and Cannabis Board. We look forward to the coming year of working together to carry out our public safety mission.

Sincerely,



Jane Rushford
Board Chair



Ollie Garrett
Board Member



Russ Hauge
Board Member



Rick Garza
Director

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 several significant awards including 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 in 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 10 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.

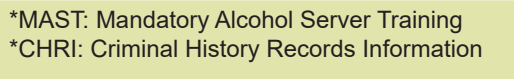


As Kitsap County's prosecutor, Russ was a member of the Washington Association of Prosecuting Attorneys (WAPA). He has served as WAPA's President, chair of its Legislative Committee, and as its representative on the State Sentencing Guidelines Commission, the Supreme Court's Minority and Justice Commission, 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.





Enforcement and Education

Enforcement and Education Division

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

FY 2019 Staffing Chart	
173	Staff
1	Chief
1	Deputy Chief
1	Commander
5	Captains
23	Lieutenants
104	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

Retail Enforcement

Retail Enforcement strives to protect and serve the public by ensuring the legal and responsible sale of alcohol, tobacco, vapor, and cannabis at retail businesses. Retail enforcement focuses primarily 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, vapor product and cannabis laws.

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

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

Region 1 – Southwest Washington
Regional Office: Tacoma
4,394 Licensees / 18 Enforcement Officers
Region 2 – King County
Regional Office: Federal Way
4,389 Licensees / 18 Enforcement Officers
Region 3 – Northwest Washington
Regional Office: Mount Vernon
3,559 Licensees / 12 Enforcement Officers
Region 4 – Central and Eastern Washington
Regional Office: Spokane
3,471 Licensees / 13 Enforcement Officers



Lt. Matt Murphy leads discussion in Enforcement's 'Responsible Cannabis Sales' video.

Enforcement and Education

FY 2019 Key Enforcement Activities	FY 2018	FY 2019	% Change
Educational hours	3,063	3,010	-1.7%
Liquor premises checks	26,841	27,508	2.5%
Tobacco premises checks	4,065	4,405	8.4%
Complaint investigations	2,960	2,312	-22.0%
Cannabis premises checks	5,705	4,647	-18.5%
Vape premises checks	1,778	1,780	.5%
Licensee support visits	7,666	8,650	12.8%
Liquor compliance checks	3,257	3,170	-2.7%
Tobacco/vape compliance checks	2,135	1,735	-18.7%
Cannabis compliance checks	1,253	1,289	2.9%
Surveillance hours	1,420	3,373	137.5%
Responsible sales training classes	238	215	-9.7%
Online responsible sales classes	629	1,203	91.2%

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 cannabis 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 warning notices, administrative violation 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

2,082 Licensees / 6 Enforcement Officers

Cannabis Enforcement

A non-retail enforcement team of 24 Liquor and Cannabis Board enforcement officers and 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 seized 35,119 illegal cannabis plants and over 180,000 pounds of cannabis product from 74 locations, due to illegal pesticide application, non-compliance with traceability issues, and outside illegal activity involving unlicensed grows.

Cannabis Enforcement

Statewide Unit

1,410 Licensees / 20 Enforcement Officers

Enforcement and Education

Tobacco Tax Enforcement

The Tobacco Tax unit has 13 commissioned full-time employees within 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 the Tobacco Tax Unit was reinstated in 2015, the unit has referred over 44 million dollars, with 6 million in fiscal year 2019 to the Department of Revenue for review and collection of unpaid tobacco taxes.

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

Tobacco Tax Enforcement
Statewide Unit
5,943 Licensees / 10 Enforcement Officers

Vapor Enforcement

The Vapor team has five, commissioned, full-time employees. The express purpose of this team is to enforce laws to provide Washington residents with consumer protection, increase child safety and eliminate youth access. Additionally, the team conducts internet enforcement and aids in ensuring vapor licensing requirements are met. They educate vapor products retailers, distributors, and delivery sales licensees on vapor laws and rules.

Vapor Enforcement
Statewide Unit
4,113 Licensees / 5 Enforcement Officers

Areas of Focus in FY 2019

Youth Access Efforts

To ensure compliance and prevent sales of alcohol, cannabis, tobacco, and vapor products to persons under 21 years of age, officers focus on compliance checks at all locations who have received 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 industry stakeholders with resources and education to ensure compliance. This program is a vital part in the agency's efforts to curb youth access and promote responsible sales and service.

Compliance Rates

FY	Liquor	Cannabis	Tobacco	Vapor
2019	84.2%	96.2%	91.2%	87.1%
2018	81.3%	94.6%	89.0%	78.7%
2017	83.2%	93.2%	83.7%	73.6%*

*6 months of data



Enforcement and Education

Safety Grants

The Enforcement Division was awarded two grants from the Washington Traffic Safety Commission to address impaired driving and public safety. The grants allowed LCB officers to partner with local Target Zero (TZ) teams and participate in high-visibility, multijurisdictional enforcement patrols backed by media outreach. To increase educational efforts, the TZ program also utilized the Home Safe Bar Program education and compliance visits conducted by LCB officers and local law enforcement partners on the evenings of enforcement patrols in high fatality and serious injury collision areas. The other grant allowed LCB officer to conduct undercover visits in locations of strategic interest (LSIs). LSIs are businesses with the highest DUI referrals in FY 2019. Efforts included educational awareness of the risk of over-service.

Future efforts

The 2019 legislative year was quite active for the Enforcement and Education Division. Several items of interest were enacted by the legislature and will involve changes for the coming years. These included:

- Vapor product taxation (effective October 1, 2019)
- The age to purchase tobacco and vapor will increase to 21 on January 1, 2020
- Creation of a voluntary compliance program to provide advice and consultation for licensed cannabis businesses and their employees

Food and Drug Administration (FDA) Tobacco Inspections

The FDA re-awarded the LCB a tobacco inspection contract originally adopted in 2010. Under federal authority, the LCB 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.

FDA

7,073 inspections conducted

627 violations for sales to minor

Top Public Safety Violation Types in FY 2019

Violations can result in Administrative Violation Notices (AVNs) or warnings. There were 932 violations in the top three categories, with 866 AVNs issued resulting in fines or license suspensions.

Sales or service to minors (alcohol)

- 529 violations
- 506 AVNs issued
- 23 warnings issued

Sales of tobacco to a minor

- 315 violations
- 311 AVNs issued
- 4 warnings issued

Sales/service to apparently intoxicated person

- 88 violations
- 49 AVNs issued
- 39 warnings issued

Sales or service to minors (cannabis)*

- 49 violations
- 48 AVNs issued
- 1 warning issued

*Not in the top three.

Licensing and Regulation Division

The Licensing and Regulation Division administers all licenses and permits for the sale, service, manufacturing, and distribution of alcohol and cannabis within the state of Washington. With over 80 employees, the second largest LCB division is composed of the Customer Service, Liquor Licensing, Cannabis Licensing, Adjudications, and Policy & Education units.

Application Assignments by Region

In October 2018, the Licensing Division reorganized file assignments to improve consistency and communication for both applicants and Enforcement. Each application is now assigned to both the Licensing Specialist and Enforcement Officer, based on which region the licensed premises is located.

Pilot Program – Remote Licensing Specialist

The Licensing Division launched a six-month pilot program stationing a Licensing Specialist in a regional office. The program's Licensing Specialist Senior is positioned at the Mount Vernon Enforcement field office to strengthen relationships between applicants, Licensing and Enforcement.

Diversity, Equity and Inclusion

The Licensing Division has been increasing efforts to assist customers from a variety of diverse cultural backgrounds. In addition to bilingual staff to assist customers in Korean or Spanish, the Division has expanded access to telephonic interpretive services in 15 different languages to better support our customers in their preferred language. Additionally, the Licensing Division has identified frequently requested forms and applications that will be translated into Korean and Spanish next year.

Customer Service

The Customer Service Unit supports the Division by providing service to internal and external customers by answering phone calls and

correspondence regarding a variety of WSLCB protocols, rules, and regulations. The Customer Service Unit responded to over 46,000 phone calls throughout FY 2019. The unit also supports the division by issuing licenses, permits, and assisting with liquor and cannabis license alterations. In FY 2019, the Customer Service Unit issued nearly 14,000 permits and special occasion licenses.

FY 19 Permits Issued

Special Occasions License	6,815
Raffle Permit	278
Agent's License	5,022
Other	1,424

Liquor Licensing

The Liquor Licensing unit processes applications for both retail and non-retail licenses. In FY 2019, the Unit received nearly 3,000 applications for new liquor licenses and over 1,300 applications for changes to existing liquor licenses requiring assignment to a Licensing Investigator.

Non-Retail

The Non-Retail Unit processes applications for manufacturers, importers, wholesalers, and distributors of alcohol products. During the 2019 legislative session, the following privileges were expanded:

Recorking Wine and Sake

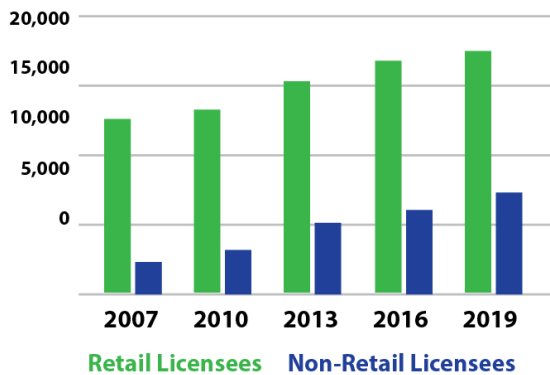
Allows customers of wineries to take recorked or recapped wine in its original container from winery premises. Allows patrons of restaurants to take recapped sake purchased for consumption with a meal from restaurant premises.

Promoting Events Online

Allows liquor manufacturers, distributors, or their licensed representatives to use websites or social media accounts to post, repost, or share promotional information or images about events featuring products of the manufacturer's own production or a product sold by the distributor.

Licensing and Regulation

Active Liquor License Count



Services by Liquor Manufacturers

Allows liquor manufacturers to contract with distilleries, breweries, and wineries to provide packaging services.

The LCB continues to see an increase in the number of wineries, breweries and distilleries licensed in Washington state. As a result, the unit has increased their commitment to educating applicants and licensees throughout the state on the licensing process and requirements.

Retail

The Retail Licensing Unit processes applications for establishments that sell alcohol for on-premises and off-premises consumption.

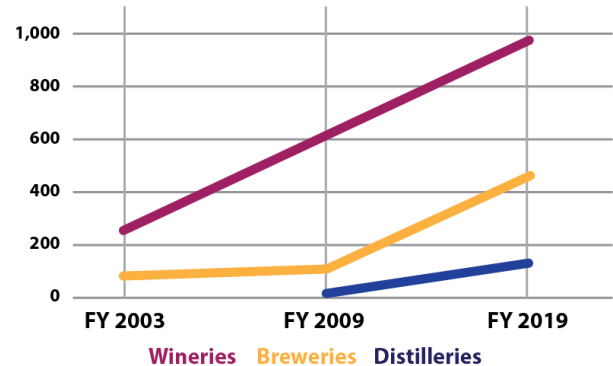
Soju Endorsement

The LCB offers a new endorsement for licensed-spirits, beer, and wine restaurant owners to serve the Korean liquor Soju in the traditional custom: communally, by the bottle. Previously, licensees were restricted to serving all spirituous liquor by the glass. This addition represents a change in legislation that, while promoting public safety, allows a traditional cultural practice.

Cannabis Licensing Unit

The Cannabis Licensing Unit processes applications for cannabis retailers, producers, processors, transporters, and researchers.

Wineries, Breweries and Distilleries

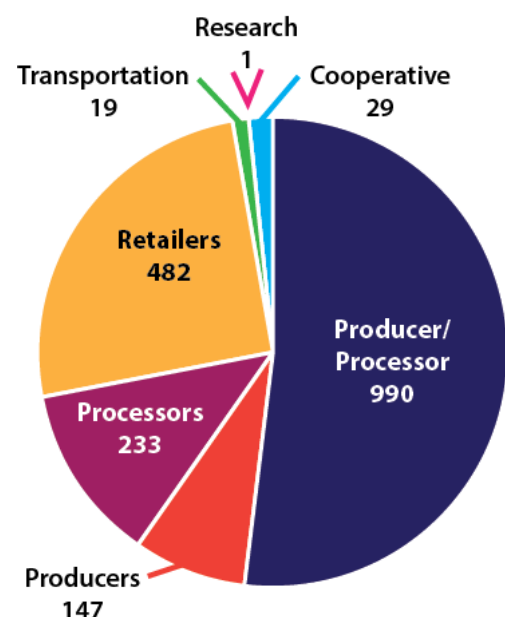


Personal Funds

Cannabis Licensees may now spend their own money on their business prior to the LCB vetting their funds. Business owners are allowed to use their personal funds once their application is submitted to the LCB, and the expenditure will be investigated after the fact. LCB made this change at the request of the industry to help reduce business operation barriers.

Retail Title Certificates

Title Certificates are a solution for retail cannabis licensees in jurisdictions where ordinances prohibit cannabis retail licenses. If a retail cannabis licensee



is awarded a Title Certificate, they are exempt from maintaining operational license requirements. At the end of FY 2019, 46 title certificates were approved and granted to cannabis retailers.

Change Request Applications

The unit continues to process change applications for all types of cannabis licenses. The most common change requests are alterations to the premises and change of ownership applications.

New Retail Liquor Licenses Issued	
Beer and Wine Restaurants	402
Beer and Wine Specialty Shops	50
Catering	18
Grocery Stores	189
Hotels	22
Night Clubs	16
Spirits, Beer and Wine Restaurants	449
Sports Entertainment Facilities	8
Snack Bars	30
Spirit Retailers	16
Taverns	27
Theaters	7

Policy and Education Unit

Responsible Vendor Program

The Responsible Vendor Program encourages retailers selling alcohol for off-premises consumption to adopt best practices to ensure liquor is sold responsibly. To date, more than 2,300 grocery store employees have completed the responsible alcohol sales online-training courses in English, Korean, and Spanish. This interactive, multiple-language course is available 24/7.

Mandatory Alcohol Server Trainer (MAST)

The MAST permit is required by law for anyone who serves alcohol for on-premises consumption, including those who manage the liquor licensed establishment and conduct alcohol tasting. In FY 2019, over 49,000 new MAST permits were issued to individual servers, raising the total number of MAST permit holders throughout Washington to over 225,000.

Outreach and Education

The Licensing Division regularly provides training and outreach opportunities to applicants and licensees. In FY 2019, employees participated in over 19 events educating over 500 stakeholders and customers on liquor and cannabis regulations.

Compliance and Adjudication Unit

Adjudication Team

The Adjudication Team reviews applications for new and renewed liquor and cannabis licenses to ensure the highest level of public safety. The unit reviews applications and licenses from those who have a criminal history, unpaid taxes, misrepresentation or administrative violation history. They make a determination if the license will be approved, denied, or suspended. The Board affirmed over 90 percent of the Final Orders issued in FY 2019.

Receiverships

The Adjudications Team has worked diligently to create an application process for pre-approved receivers. A receiver is a person appointed by the court to take possession and charge of the designated business assets and property. The application and required documentation can now be submitted prior to being appointed as the receiver for a cannabis business. The preapproval process allows receivers to petition the court, knowing they have already been approved and won't have any further delay in assuming the day-to-day business operations.

Public Health, Prevention and Research

Public Health, Prevention and Research

To support the public safety mission of the agency, the Public Health program focuses on the prevention of underage use of alcohol and cannabis, and the reduction of high risk use by adults. Efforts include vapor products, as a result of regulation that began in 2016, and have escalated this year due to the outbreak of vaping-associated lung injury late summer and beyond.

Program staff participate in coordinated efforts that engage other state agencies, statewide organizations and educational institutions to align work toward the common goal of healthy and safe communities for all people in Washington. Providing research-based information and eliciting stakeholder feedback to inform policy work is a growing component of this program, particularly in the rapidly changing landscape of legalized cannabis use and vapor product regulation.

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), navigate agency processes such as rulemaking, request speakers and seek resources.

Educating, Training 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. This year, skills trainings have been added to increase prevention and public health professionals' understanding of and participation in our agency rulemaking process, including webinars, coaching, focus groups and a workshop at the Prevention Summit. In Fiscal Year 2019, the program staff:

- Provided presentations and trainings for local, state and national stakeholders.
- Responded to over 100 requests for information.
- Convened two Prevention Roundtables, one in Spokane and one in Bothell.
- Included prevention and public health professionals in Potency Tax Workgroup.

Working Together, Maximizing Resources

Addressing and preventing underage drinking and cannabis 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.

LCB's Public Health Education Liaison serves as co-chair of the Washington Healthy Youth (WHY) Coalition and serves on the Coalition's Communication workgroup. With representatives from behavioral health, treatment, public health, law enforcement, education, research, prevention-based coalitions and others, the WHY Coalition works strategically to coordinate efforts, avoid duplication, and maximize resources.

The Communications workgroup supported the statewide cannabis education media campaign during FY 2019 in an advisory capacity. It maintains



Public Health Education Liaison Sara Cooley leads a discussion with prevention stakeholders.

the Start Talking Now website, bringing resources to parents and other influential adults on how to talk to youth in their lives about alcohol and cannabis. This year, the site was made available in Spanish and seven of the state's other most spoken languages. The LCB continues to be a sponsoring agency for the biennial Washington Healthy Youth Survey and the annual Washington State Prevention Summit, participating in the Healthy Youth Survey Planning Committee, as well as the Summit Planning Committee. Staff are also members of the Strategic Prevention Enhancement Consortium, the WA Impaired Driving Advisory Council, NW HIDTA Prevention and Treatment Advisory Group, and the Prevention Research Subcommittee.

Incorporating Research

Reviewing and monitoring research is an important component of this program in order to increase the knowledge of both staff and stakeholders. Research-based information is incorporated in the policy decision-making process and is also used to develop and update educational materials and the LCB website.

Agency Performance

Results Washington

Since 2013, Results Washington has been established as the performance accountability program that measures results for 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 Fiscal Year 2019, Results Washington implemented a significant transition to realign outcome measures to the key goal areas. The LCB

participated with other agencies to identify and prioritize results and information on Preventing Substance Abuse and Improving Recovery.

Governor's Results Reviews

Over the past year, results review topics included re-entry outcomes for incarcerated individuals; improving public lands; accessible child care; infant mortality; economic security, and employee engagement.

The LCB participated in discussions on employee engagement and in a session providing updates on 2018 activities that included youth engagement and diversity, equity, and inclusion.

LCB Results

LCB Results is the agency's long-standing performance program. Regular sessions are held with 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.

Continuous Process Improvement

Improving operational processes is a core value at LCB and embedded within the agency's daily work. Over half of the agency has participated in Lean-related and problem-solving training or other improvement activities. During the past year, the agency began using a new enterprise content management system to improve electronic record keeping of beer and wine tax-related original documents, reducing print costs by 73 percent, and related staff processing time.

Financial Statement

Income

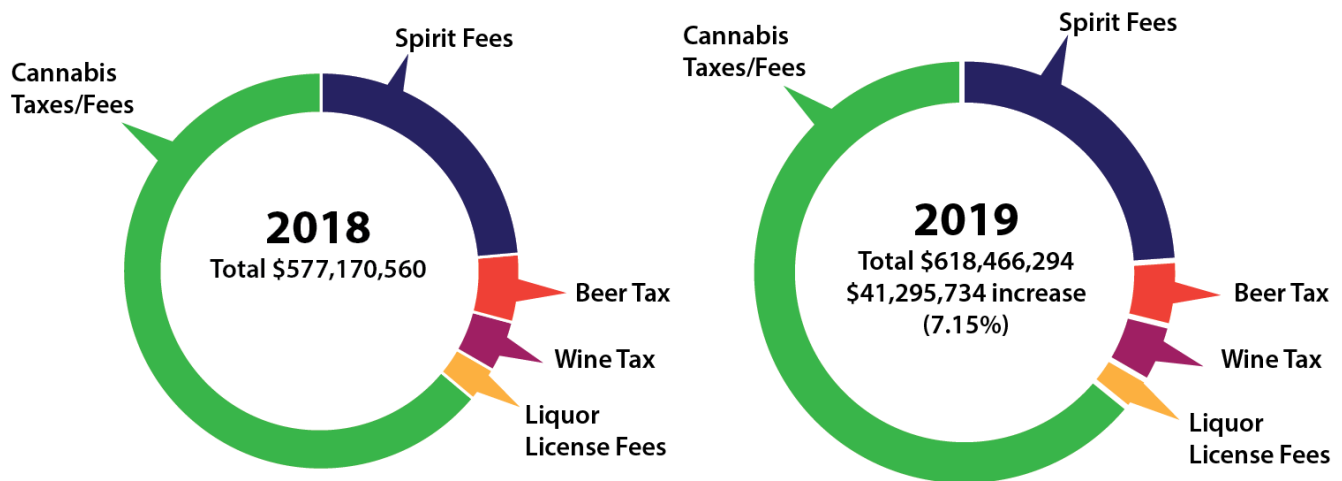
	FY 2018	FY 2019
Liquor Taxes and License Fees (includes penalties)		
Spirit Fees	\$137.6 million	\$148.8 million
Beer Tax	\$31.1 million	\$31.1 million
Wine Tax (not including assessment)	\$25.3 million	\$26.5 million
Liquor License Fees	\$15.8 million	\$16.6 million
Total Liquor Income	\$209.8 million	\$222.9 million
Cannabis Taxes and License Fees (includes penalties)		
Cannabis Tax	\$362.0 million	\$390.4 million
Cannabis License Fees	\$5.4 million	\$5.2 million
Total Cannabis Income	\$367.4 million	\$395.5 million
Tobacco		
Tobacco Related Income	\$0.7 million	\$0.6 million
Total Tobacco Income	\$0.7 million	\$0.6 million
Total Income	\$577.9 million	\$619.1 million

Expenses

Operating Expenses		
Licensing	\$5.4 million	\$5.5 million
Enforcement	\$15.0 million	\$16.1 million
General	\$21.6 million	\$27.4 million
Total Operating Expenses	\$42.0 million	\$49.0 million
Distributions/Appropriations		
Distributed to State/Local Governments	\$504.4 million	\$505.6 million
State Agency Appropriations	\$60.4 million	\$61.4 million
Total Distribution/Appropriations	\$564.8 million	\$567.0 million
Total Expenses/Distributions	\$606.9 million	\$616.0 million

Total Income Comparison Between 2018 and 2019

	FY 2018	FY 2019	
Spirit Fees	\$137,577,415	\$148,755,778	Increase \$11,178,363
Beer Tax	\$31,095,167	\$31,060,875	Decrease \$34,292
Wine Tax	\$25,281,265	\$26,481,140	Increase \$1,199,875
Liquor License Fees	\$15,834,220	\$16,644,934	Increase \$810,714
Cannabis Taxes/Fees	\$367,382,493	\$395,523,567	Increase \$28,141,074
Total	\$577,170,560	\$618,466,294	Increase \$41,295,734



Policy and Rules Coordinator Katherine Hoffman hosting a 'Listen and Learn Session' for cannabis stakeholders.

Revenue Distribution

General Fund - \$241.3 Million

Liquor \$124.8 Million	Revenue sent to the state General Fund is used to provide much-needed resources for education and other critical state services.
Cannabis \$116.5 Million	

Basic Health - \$188.3 Million

Cannabis \$188.3 Million	To fund health care services.
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Cities, Counties - \$64.5 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 \$15.0 Million	Cannabis revenue sent to cities and counties.

Education, Prevention - \$45.6 Million

Liquor \$9.4 Million	For alcohol and substance abuse programs administered by the Division of Behavioral Health and Recovery including community-based initiatives to reduce underage drinking. Department of Health gets funds for fund efforts to prevent the use of vapor products by minors.
Cannabis \$9.5 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 - \$2.1 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 \$0.4 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 UW and WSU to fund research on effects of cannabis use.

Other - \$51.5 Million

Liquor \$2.3 Million	For the Department of Commerce to contract with the Municipal Research Services Council.
Cannabis \$49.2 Million	Funds grants to support Building Bridges programs; and for Health Care Authority funding for community health centers.

2019 Enacted Liquor and Cannabis-Related Legislation

LIQUOR

SHB 1034 - Soju Endorsement - Restaurant Licenses Defines soju and creates an endorsement allowing spirits, beer and wine restaurants to serve soju to customers at least 21 years of age, in bottles no larger than 375 milliliters. The soju endorsement is \$50. It also requires empty bottles to be left on the table until customers have left and allows customers to take unused soju in the original, recapped bottle. The legislation requires the agency to develop a training curriculum – including in Korean – for individuals serving soju and requires endorsement holders to ensure the servers are trained.

ESHB 1557 - Liquor License Process - License Issuance - Various Provisions Requires conditional liquor licenses be issued to applicants who have met all licensure requirements except a finalized lease or sale agreement. Conditional licenses will be valid through the last day of the 12th month following the day the license was granted. First year license fees can no longer be prorated and liquor license fees will be adjusted when they are renewed. Expiration dates are set according to chapter 19.02 RCW.

EHB 1563 - Liquor Privileges - Students Allows colleges and universities that have a special permit under RCW 66.20.010 (12) allowing on-campus tasting by students at least 18 years of age to also offer off-campus tasting at a grape-growing or production facility. The bill also allows student interns – between the ages of 18 and 21 – to work in wine-production related work at licensed Washington wineries. These interns must be enrolled at a college or university that holds a special permit under RCW 66.20.010, and the intern must be enrolled in a required or elective class as part of a degree program identified in RCW 66.20.010 (12) (b). The bill requires the winery to be responsible for acts or omissions by the intern that violate Title 66 RCW.

HB 1672 - Recorking Wine and Sake Allows customers of domestic wineries to take recorked or recapped wine in its original container from the winery premises. It also allows customers of restaurants to take recapped sake bought for consumption with a meal from the restaurant.

SSB 5394 - Liquor Licensees - Promoting Events Online When promoting events featuring their own products, liquor manufacturers, distributors, or their licensed representatives can use websites or social media to post, repost, or share promotional information or images, including links to tickets sales. Events can be at the licensed liquor retailer's location or at a licensed special occasion. However, they may not pay a third party to increase viewership of posts and they may not require an industry member or their licensed representative to post, repost, or share information or images as a condition to selling any alcohol to the retailer or participating in a retailer's event.

SB 5909 - Services by Liquor Manufacturers Allows liquor manufacturers to contract with distilleries, breweries, and wineries to provide packaging services such as mixing of pre-pack products, canning, bottling, and bagging of alcoholic beverages. It also allows contracts to include receiving and returning products to the originating liquor-licensed businesses.

It does not allow manufacturers to contract directly or indirectly with any retail liquor licensee for the sale of alcohol products, unless they are medicinal, toiletry, or culinary preparations that may contain perfumes, lotions or flavorings that include alcohol.

Manufacturers are prohibited from mixing or infusing THC, CBD, or any other cannabinoid into any product containing alcohol.

TOBACCO and VAPOR

EHB 1074 - Tobacco and Vapor Products - Legal Age for Sale Prohibits the sale of cigarettes, other tobacco products and vapor products to people under the age of 21. In addition, licensed retailers may not allow people under 21 into vapor tasting events or onto premises where tobacco products are mechanically dispensed. Authorizes the Governor to seek consultations with federally recognized Indian tribes about raising the minimum age of sales. The Governor may delegate these negotiations to the Department of Revenue who must consult the LCB during negotiations. The Governor's Office must report the status of these consultations to the legislature by December 1, 2020.

ESSHB 1873 - Vapor Product Taxation Establishes wholesale taxes on accessible containers of vapor liquid solution and all other vapor products. Creates a Foundational Public Health Services Account where half of the tax revenues will be directed. The account will be used to fund public health services including education and prevention efforts to reduce substance use. It supports research and the enforcement of vapor product rules. The rule authorizes the Governor to seek to establish tax contracts with federally recognized Indian tribes with contract requirements similar to current contract requirements for cigarette taxes. The Governor can delegate contract negotiations to the Department of Revenue who must consult with the LCB during negotiations.

ESHB 1794 - Agreements by Licensed Marijuana Businesses - Intellectual Property Updates language about agreements related to licensed marijuana businesses and trademarks to more broadly describe the types of agreements covered and the types of businesses that may be parties to the agreements. Authorizes licensed marijuana businesses to enter into agreements relating to goods or services trademarked under another state's law or international trademark law. Allows agreements for trademarked or otherwise

protected goods or services to include:

- A royalty fee, flat rate, or lump sum can be no greater than 10 percent of the licensee's gross sales from the product.
- Terms giving either party exclusivity related to the use of the intellectual property.
- Quality control standards.
- Enforcement obligations for the licensed marijuana business.
- Covenants to use the licensed intellectual property.
- Assignment of licensor improvements of the intellectual property.

Requires all such agreements to comply with recordkeeping requirements set in state rule. Licensees no longer need to disclose all licensing agreements and consulting contracts.

HB 2052 - Marijuana Product Testing - Various Provisions Transfers responsibility to establish and oversee accreditation requirements and programs for marijuana product testing labs from the LCB to the Department of Ecology (ECY). Funds for these programs will come from the Dedicated Marijuana Account supported by fees from the testing labs. A task force must establish a work group for proficiency testing and a work group for lab quality standards. The task force must report to the legislature by July 2020 and again in December 2021. The LCB is given rulemaking authority to address the reports' findings.

ESSSB 5276 - Hemp Production

Establishes a new licensing and regulatory program for hemp production under the sole authority of the Washington State Department of Agriculture (WSDA). Establishes hemp producer licenses, application and renewal fees, and creates the Hemp Regulatory Account. Requires the Department of Agriculture to develop a state plan that conforms to the federal Agriculture

Improvement Act of 2018. Requires WSDA to develop an after-harvest testing protocol. Clarifies that there is no distance requirement, limitation, or buffer zone between licensed hemp producers or processors and licensed marijuana producers or processors. Requires WSDA to consult with the LCB in reviewing the state's cross-pollination and pollen capture policies and to modify or establish new policies as needed.

SB 5605 - Misdemeanor Marijuana Offense Convictions - Vacation Authorizes people with prior convictions of misdemeanor marijuana possession to apply to the sentencing court for a vacation of their conviction record. Requires the court to vacate the conviction record of applicants who qualify under the bill. Requires the applicant to have been at least 21 years old at the time of the offense.

ESHB 1094 - Medical Marijuana - Patient Renewal - Severe Hardship Establishes provisions "compassionate care renewals" allowing a telemedicine visit instead of an in-person exam for patients whose providers determine the in-person visit would be a severe hardship for qualifying patients seeking renewal of their medical marijuana authorization. For qualifying patients, seeking to renew their registration in the Medical Marijuana Authorization Database, this change removes the requirement that the person be physically present and have a photo taken, if their authorizing health care provider finds the in-person requirements would create a severe hardship.

SHB 1095 - Medical Marijuana - Administration to Students Requires school districts to establish policies allowing students to consume marijuana-infused products for medical purposes on school grounds, on a school bus, or while attending a school-sponsored event. It allows products containing marijuana or marijuana extracts, which are intended for human use, are derived from marijuana, and have a THC concentration no greater than ten percent. It does not include

usable marijuana or marijuana concentrates and prohibits the smoking or inhalation of marijuana-infused products while the student is on school grounds, on a school bus, or while attending a school-sponsored event. Provisions of the bill will be suspended if the Office of Superintendent of Public Instruction is notified that federal education funding will be withheld if the state continues to implement measures under the bill.

SHB 1415 - Medical Marijuana Authorization Database - Funding Ends the use of Health Professions Account funds to pay for the administration of the Medical Marijuana Authorization Database. Directs funds to come from the Dedicated Marijuana account. Requires Recognition Card fees (of \$1) issued by a medical marijuana retailer with a medical marijuana endorsement be deposited in the Dedicated Marijuana Account.

SHB 1430 - Licensing and Enforcement System Modernization Project Account Extends the expiration date for the LCB's Licensing and Enforcement System Modernization Account from June 30, 2019 to September 1, 2023. Otherwise the approximately \$1.2 million currently in the account would have reverted to the state's General Fund.

HB 1792 - Sale of Marijuana to Persons Under Twenty-One - Criminal Penalties Reduces the criminal penalty for a retail employee who, in the course of their employment, sells a marijuana product to a person under 21 years old from a Class C felony to a gross misdemeanor. Allows an employee of a marijuana retailer to be prosecuted for a Class C felony if they sell to an underage person outside of the course of their employment, or if they knowingly sell to an underage person not otherwise authorized to buy marijuana.

ESSB 5298 - Marijuana Product Labeling Directs that labels for products identified as a compliant marijuana product, also called "medical marijuana," may include a claim describing the intended effect the product will have on the body and

how the product claims to do so. However, when the product label includes any such claims or statements, it must also include this disclaimer: "This statement has not been evaluated by the State of Washington. This product is not intended to diagnose, treat, cure or prevent any disease." All such claims also must be truthful and not misleading. Statements on the label must not be especially appealing to children.

Establishes that marijuana products for adult use – not limited to medically compliant products – are not in violation of any state laws or rules solely because the label contains directions or recommended conditions of use, or a warning describing the psychoactive effects of the product, provided the warning is truthful and not misleading.

SB 5318 - Marijuana Licensees - Compliance and Enforcement This bill declares that a strong focus on compliance, education, and enforcement are critical components in overseeing the regulated marijuana marketplace.

This bill requires LCB to:

- Expand existing programs for compliance education, including a "voluntary compliance program" created in consultation with marijuana licensees, which must include recommendations on abating violations.
- Provide different ways to provide advice and consultation. During onsite visits, LCB cannot issue notices of citation or assess civil penalties, but if a violation with a direct or immediate relationship to public safety is discovered, the LCB may investigate. Such violations must be corrected within a specified period of time and an inspection conducted at the end of the period of time. If the LCB discovers non-compliant conditions during a licensee visit that is not a technical assistance visit, the agency may issue a notice of correction.

If a notice of correction is issued, the LCB can't issue a civil penalty unless the licensee fails to comply.

LCB can issue a civil penalty without first issuing a notice of correction if: the licensee had a previous enforcement action for a similar type of violation of the same statute or rule, or has been given previous notice of a similar type of violation of the same statute or rule; compliance is not achieved by the date established in the LCB notice of correction; or LCB can prove by a preponderance of the evidence any of the following: diversion of marijuana product to the illicit market or across state lines; furnishing marijuana to minors; diversion of revenue to criminal elements or parties not qualified to hold a license based on criminal history; the commission on non-marijuana crimes; or knowingly misrepresenting facts to the LCB related to the above four violations.

Lastly, SB 5318 requires LCB to:

- Draft rules that stop cancellation of a license for a single violation or for a violation more than two years old unless the Board can prove one of five violations specified in the bill.
- Ensure cumulative penalties can't extend beyond two years, must consider aggravating and mitigating circumstances, must give substantial consideration to mitigating any penalty imposed when there is employee misconduct and certain other conditions are met. Cancellation may only happen if the licensee commits at least four violations within a two-year period.
- Issue written warnings or notices to correct in lieu of penalties related to regulatory violations. Fines, penalties and sanctions for violations having no direct or immediate relationship to public safety and are corrected within a reasonable amount of time as decided by the agency are to be waived. Only prior criminal arrests or convictions, rather than prior criminal

conduct, and only prior violations classified as public safety violations, rather than all violations, may be considered when the LCB reviews a license for potential cancellation.

- Give substantial weight to the terms of a proposed settlement agreement entered by a licensee and a hearing officer or designee of the LCB.

Washington State Liquor and Cannabis Board

Mission

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

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