



**Washington State Liquor and Cannabis Board
Alcohol Advisory Council (AAC) Meeting**

Wednesday, December 5, 2018, 1:30 pm to 3:30 pm
Room 201, LCB Headquarters - 3000 Pacific Avenue SE, Olympia WA 98501

Meeting Minutes

AAC Members Present

Jane Rushford, WSLCB Board Chair
Ollie Garrett, WSLCB Board Member
Russ Hauge, WSLCB Board Member
Rick Garza, WSLCB Director
Association of WA Spirits & Wine Distributors: Andrea McNeely
Beer Institute: Jeff Gombosky
California Wine Institute: Katie Jacoy
Convenience Independent Contractors: Ted Yi (*Absent*)
Distilled Spirits Council of US (DISCUS): Adam Smith (*Absent*)
Family Wineries of Washington State: Paul Beveridge
First & Goal: Ed Goines (*GoToMeeting*)
Korean American Grocers Association of WA (KAGRO): Daniel Kim (*Absent*)
Northwest Grocery Association: Holly Chisa
Tribe (Nooksack): Bob Kelly (*Absent*)
Tribe (Puyallup): David Bean (*Absent*)
WA Beer & Wine Wholesalers Association: Amy Brackenbury
WA Brewers Guild: Annie McGrath
WA Distillers Guild: Mhairi Voelsgen (*Absent*)
WA Food Industry Association: Jan Gee
WA Hospitality Association: Julia Gorton
WA Liquor Store Assoc: Troy Nichols
WA Wine Institute: Josh McDonald

Chair Rushford called the AAC meeting of the Washington State Liquor and Cannabis Board to order at 1:30 pm on Wednesday, December 5, 2018 and welcomed everyone.

I wanted to begin today by telling you about our upcoming agency move. We've talked in different meetings about the fact that we'll be moving July 1 to the building at Eastside and Union. It's being completely renovated, and there's lots of visitor parking. We know that is important to all of you. The Board room will be on the main floor. There's a conference room adjacent to the Board room. We look forward to our new facility.

New Staff Member Introductions – Rick Garza, Director

Rick introduced Scott McCarty. Scott takes the position of Public Health Liaison that Mary Segawa had with us for many important years. The LCB actually went to the legislature to create a position that would work directly with public health, the prevention community, and the community coalitions throughout the state. Mary had been the director of Together! in Thurston County, a highly regarded program. Scott has impressive credentials. He holds a Bachelor of Science in Bio and Analytical Chemistry, and a Doctorate in Pharmacology. His blend of

previous state service and small business experience will be extremely meaningful in the work ahead. He will co-chair the Washington Healthy Youth Coalition. Welcome, Scott.

Brett Cain joins us from the Department of Health. He was a program manager and also knows his way around cocktails, having been a bartender for almost 10 years. His roles span healthcare licensing and regulation along with policy analysis, rule development, legislative implementation. He'll serve as a policy analyst and LCB's tribal liaison. There's been so much work that we wanted to bring another policy person in to help the Board and myself and our senior management on some of the bigger agency issues where we need to be involved. As you know, we're now compacting with tribes with respect to cannabis. And we had Joanna, who was our cannabis rules coordinator and also our tribal liaison. The workload was too demanding. It's great to have Brett join the team. Already he's working on several agency projects and doing a lot of work around compacting with the tribes.

Kathy Hoffman took the place of Joanna as our cannabis rules coordinator and is also one of our policy analysts. She came also from the Department of Health, bringing an extensive and impressive background in rulemaking and policy implementation. Kathy will work with our cannabis programs. She has an undergrad prelaw degree, master's in public administration from the Evergreen State College and is currently pursuing her Doctorate in Leadership and Change Structures. Thank you for joining us Kathy.

Pat Kohler, please stand for a moment. I begged her to return to the agency as our deputy to help us with our Systems Modernization Project and cannabis traceability program but then she was offered this dream job in the private sector. So she's going to be leaving us in a couple of weeks. I'm in the process of hiring another Deputy Director. One thing we know about this world, especially this agency, it just continues to change. I wanted to thank you for taking the time, Pat. The changes that you made the months you were here were impressive, and I wanted to thank you in front of everyone and the Board for all the contributions you've made.

Jane thanked Rick and extended another welcome to all. She added we're so happy to have you on-board, and already I can say the work is more than impressive. They're really in the learning arch right now so good things ahead. We appreciate your patience and help through all of it.

Rules Update – Chris Thompson presented a rules update on behalf of Janette Benham

Chris Thompson gave a brief rules update on behalf of Janette Benham. We have a number of rulemaking efforts in progress related to alcohol, some in various stages of dormancy. Mini spirits bottle storage, for instance, was up for a public hearing. There were some concerns about it so we're in the process of working with industry to figure out perhaps another approach to the initial proposal. This was for grocery stores or specialty shops with less than 50 percent of their revenue from alcohol required to have their mini spirit bottles securely locked.

Alternating proprietorships and internet sales delivery for breweries and wineries. This is in a review stage. Chris asked Josh McDonald if he had more information to add. Josh McDonald shared they are working with Janette and her team and the Liquor Board on language around alternative proprietorship. That's when a winery comes in and shares space with another winery. That winery may not have physical space or capital. He added it's a really important part for us, especially our small wineries to get started. And we're trying to get some structured definition around how that business model works. And we're in flux on that language.

Chris continued that the spirits distributor licensing fees is another area where we're looking at how to proceed in light of some court action and reversal of past agency practice on assessment of those fees. We're also in a staff level discussion on a petition we received for revising the 42-inch barrier requirement. We're exploring options on that now.

Curbside service: we had our public hearing on a draft proposal at the end of October. We've filed new language on that at the end of October and there will be a public hearing on December 12. So that would involve setting a minimum of \$25 non-alcohol purchase, a designated parking area for the customer that's under the ownership or control of the grocery, training requirements for the employee making the delivery that would involve how to check for ID, how to monitor for intoxication, and then a provision for addressing anything that comes up in that process as well as preventing youth access.

Jan asked what the 42-inch barrier petition is for. What part of the barriers?

Chris explained that it's not just one particular license -- it's more broadly in liquor license establishments. People want to know why we have these barrier requirements and so I think it was really the Board saying, "Well, let's take a look at this. I'll use Mercato downtown as an example: you've got a rail there that defines where the bar is versus where the restaurant is. It's hard for people to get around there because that barrier is kind of in the way. This is a simple example of is there something that we could do to be more practical about the barrier? This has always been a concern for the enforcement officer because that's how they determine between what's a restricted area and what's not. And you might recall a couple of years ago or it could've been longer, the Board had taken some action by rule to work on outside services and having demarcations on the ground rather than a rail, for example, as a way of determining what's restricted area and what's not. I think it's a pretty broad look at this to say, "Is there something that we can do to make it a little easier for business?" Because this barrier has been problematic for years for some and for some, not a problem. I don't think we were going to be specific to one type of license.

Jane added we also received a petition for rulemaking.

Legislative Update – Chris Thompson, Legislative Director

Chris shared we have a legislative agenda that's still in development. We've put together five proposals. Four of those proposed bills are still under review at the governor's office. They've approved, initially one of those proposals. I won't go into the two of the five that specifically relate only to cannabis. I'll mention the three that aren't. And I'll also mention that I can't really get into a number of budget requests that we've developed and submitted because we don't have feedback yet from the governor's office on what they're going to embrace there and give us the okay to pursue and proceed with. He added we're probably very close to decisions on those but we don't have them today. I'll talk about three legislative proposals that we developed.

One is the suggestion that a promoter's permit would be required in order to assist a liquor licensee with an event in the state. This would be required -- there'd be a number of specific requirements, holding a Washington business license. Some of the details of how that would be set up would be developed in rule. The license would last for a year. There'd be an explicit requirement that's sort of been already operating in our assumption about profit. All profits would have to be retained by a nonprofit organization holding a special occasion license, for instance, that a promoter might be working with them on. The concern here and the reason for this initiative is that there have been a number of problems, pretty serious public safety issues have arisen around events where it appears to us as though the party responsible for the problem is not the licensee but it's the promoter. We don't presently have any mechanism to hold a promoter accountable for those actions or to give everyone an opportunity to help educate promoters about what state rules and laws are and help ensure compliance that way. So both our enforcement staff and licensing staff have brought this forward. I've even heard from stakeholders in the community, some recognition that there have been some problems. This could be tightened up a little bit with a little stronger oversight. So that's one proposal that might be of interest to a number of folks here.

A couple of others that might be of more peripheral interest. We've got a technical bill to enable us to use existing funds to continue to work on our SMP. The System Modernization Project is financed in part by some funds that have already been collected and are sitting in an account. That account will expire and therefore, the funds would revert to the general fund on July 1 of this coming year so we're asking for an extension of the

sunset date. We're asking to kick out the date on that four years and a couple of months. There would be no fiscal impact and it would enable us to use licensing fees collected from our system to be spent on the purpose for which they were collected. We'll need more than the \$1.2 million in that account currently to proceed and complete that project. But we want to make sure that those funds are available for use beyond July 1 for that purpose for which they were intended and collected.

And then finally, we have a bill we've developed that has some similarities but is different from legislation we worked on in past years regarding enforcement authority. Our officers have authority to enforce state penal laws as they relate to the manufacturer, the distribution, the warehousing, the transportation, the sale, and the possession of alcohol. We don't have similar scope of authority with respect to the other substances we regulate; cannabis, tobacco, and vapor. This legislation would create the consistent chain of authority across all the regulated substances that our agency deals with. There's some things it would not do that have been points of concern in the past. Enforcement of other state laws relating to patron conduct, for instance, would not be affected by this bill. We're not involving any changes to what penalties are or anything of that sort. But there are some reasons that this would be a significant enhancement of our ability to provide oversight. It would also do some things for our officer protection and safety as well. One of the areas where we think it would be the most significant opportunity for us to do a better job of oversight is in financial investigations particularly in the cannabis world. So that may be of peripheral interest to this group. But we don't presently have much authority to go very far in investigating and obtaining documents and whatnot related to financing and so forth that can be, at times, a concern, particularly in the cannabis world. So those are three of the bills that might relate somewhat to your worlds and we're hoping to get approval shortly to proceed on all those in getting sponsors and preparing for session. Any questions or comments on any of those?

Jan asked, so you're not asking us for a fee increase or anything? You're just wanting to keep the money that you have that we already paid in. Chris replied, on the system modernization project account that is correct. This legislation wouldn't recreate or reestablish or extend any of the fees. That's not involved here whatsoever. Jan asked if it just lets you keep what you already have? Chris replied, these are funds already assessed, collected, and sitting in an account and this would just enable us to use them for the intended purpose beyond that into the next biennium.

SMP Update – Pat Kohler, Deputy Director

Pat Kohler started by saying it's been fun to come back. We have a great Board, and Rick and I worked together for so long. I'm truly indebted to Rick for his support and taking me back. We have done a lot in just a few short months. Rick asked me when I come back to really focus on the technology side of things. That's really his highest priority. And sitting back and looking at where we are, I can understand why it's our highest priority. We have systems that are 40 years old and that's a little bit too old in most cases. So what we started to do was to revisit our strategic plan and identify what were the priorities of the agency with technology being the highest priority area and created a governance process. Being a small agency like we are, we can prioritize when we have competing resources that are working on various projects. But we do have a lot going on so I think setting up and focusing on what our priorities are and how we are going to manage those is a really important step for us to start. We're finalizing those things right now. One of the things that we looked at is where do we need to go from a technology standpoint with the system modernization after we terminated with Paladin a year ago in October. I feel the LCB had some really good lessons learned and experience that happened as a result of that. I actually view that when you go through something like that, you come out of it stronger and you come at it with a different approach. On top of that, I had five years of experience at the Department of Licensing doing major system technology improvements, a new driver system, and a new vehicle system. There were a lot of things that I could bring here from those experiences. I think we've laid some really good ground work for SMP to be very successful. We have hired a new project manager. She's incredibly skilled and experienced in delivering projects on top and on schedule. Her name is Clare Olson. She joined the team on November 1. She has 40 years of experience in project management and as I said earlier, she did both the modernization efforts at Department of Licensing for drivers and vehicles. We also hired a new implementation manager. Some of you

might know Mona Moberg, she worked with the business advisory council when it was called that. Mona Moberg was at Liquor Control Board at that time back many years ago. She then left and worked on system modernizations at the administrator for the courts of administrative hearings where Loraine Lee went. She also worked on the Department of Licensing's system modernizations. So she's gained a lot of experience in project management and so she'll be joining with Clare as the implementation manager. Between these two, we've started to build a really great team that has knowledge about LCB and definitely knowledge about successful system implementations. In addition to that, we have hired some consultants to help us with organizational change management.

As you know we have a pretty old system that is code-based and people have to remember the codes you enter and now the new systems are more intuitive so we need to make sure our employees and enforcement officers in the field are prepared to use a new system. We are bringing in organizational change management to help with that and looking for a way to have that be a part of the core competency of our managers and supervisors so that when any change happens, we do a really good job of helping employees understand and be prepared for change. I think we have a great foundation and a great team. We've already started having some of the steering committee conversations and I think there's a level of energy about the team and excitement about restarting the system modernization project.

The other thing that we did, which Chris also indicated, not only have we asked for an extension of the money that we still have remaining from the previous effort, we put together a decision package for the governor's budget. And we'll know in a few weeks whether or not that's approved. We feel really good about the decision package. We put together a really good justification for the system modernization. It wasn't hard when you have a system as old as ours is. But we were able to put together impacts to licensees and what it would mean, what benefits would they have. We're going to look at online services and things like that that would be a benefit to licensees and what's the benefits to our internal employees in licensing and enforcement. And then just overall, the ability for better communication and coordination between licensing and enforcement. There are some great metrics in there that justify it on the business case. Our OCIO office, the state office that oversees technology ranked it as the number seven priority in the state. And I thought that was really great to hear because we're a smaller agency so we don't always get ranked that high. So of all the technology efforts, we were ranked seventh. I think that speaks to the work the staff did to do such a great decision package. There were some really good lessons that we learned from SMP. One of the things we put in the decision package is to backfill a staff here to come onto the project. And what we were attempting to do on previous efforts is have it be part of someone's duties so the project and the operations, they ended up competing against each other. We actually put money in the budget to backfill staff so that the best and the brightest can come on the project so we make sure we meet our business need and we have staff behind that can do the day-to-day operations. We have that planned in the decision package so we'd bring in the right amount of subject matter experts to make sure the system's going to meet the needs in the testing and in the training area and then making sure we have representation across the agency with expertise to know how the system will work. I think that'll also help with burnout of our staff because when they're doing their regular job and then this on top of it, it really results in some morale impacts. I think that divisions are going to be pretty excited about the opportunity to be able to backfill.

We also had another project that was tied to system modernization called Enterprise Content Management, which is all our records management and ability to do public disclosure and so forth. We actually are separating that project. We have a contract with Laserfiche, which we anticipate on February 4 going live with human resources and then the tax and fee area. Then eventually, we'll move all of our records to the electronic system and it'll actually interface with the system modernization project, so bringing us more in line with where electronic records are going. It'll be easier to respond to some of the requests for information. So we've moved that as a separate project and Clare Olson, who is the project manager on SMP will manage that project as well.

We increased the amount of vendor and software costs. So in-between -- when we did the procurement last time, we underbid what we thought or under-requested what we thought it would take. We now have some other experience with looking at researching in the marketplace, looking what other states have done. The

Department of Licensing, when I was there, actually, Rick and I started conversations before I even joined LCB about the possibility of piggybacking on the Department of Licensing procurement. In July, they went out with a procurement they just awarded to Deloitte Consulting to do their system. It's a sales force software. It's a convenience contract we have the opportunity to make the decision here at liquor and cannabis of whether or not we're going to piggyback onto that contract. The benefits to us are we wouldn't have any cost related to bidding and because they're a larger agency, there's multiple agencies looking at piggybacking onto that procurement. We actually have the benefit of their pricing. So we think that's something to look at but we also have done research on what other systems are out there because the market's constantly changing. That will be a decision that Rick and the project team will need to make about whether we go with the DOL contract or we do our own procurement. Even if we do the DOL contract, it will be our own separate contract that we'll negotiate with the vendor just under the DOL convenience contract. I feel this is also an opportunity we will benefit from because one thing that is common is that licensing requirements and even some of the inspections and compliance requirements are consistent and common among all these agencies that oversee business. Department of Health is doing some of that. The Business and Professional Licenses and DOL had 44 professional licenses, Fish and Wildlife issue fishing and hunting licenses. There's a variety of agencies across state government and their processes are very common. With technology, the way it is today, it's really configurable to our different processes and our different laws. I think definitely an opportunity for a different approach but we recognize we need to build more money in the budget because the software costs are way higher than what we had originally built when we went through the first procurement. We actually just modified that based on what the DOL procurement came in with the vendors there. I think we're in a pretty good position related to our decision package. OFM seems to be very supportive of it and then again, the state OCIL office is very supportive.

Finally, we have been involved, not only in the DOL side but we have done some work that we're going to be able to take advantage of related to the previous efforts. So it's not really all throwaway work that even though the procurement didn't go forward with Paladin. We had some really good work that this agency's done, which makes us miles ahead of most agencies that start these technology projects. We have already done all the process mapping of our processes and are ready to look at whatever vendor comes in, what's their new processes and how are we going to prepare our staff for that change. So we are way ahead of that. That's already work that's been done. We've already done all the data cleanup work. I'm sure there'll be more as we go along. But there was work that we had done under that contract to do data cleanup. Those two areas are really big steps for an agency that's preparing for technology. That's the update and I'd be happy to answer any questions or you can email me or wait 'til the end, whatever your preference is.

Pat shared she will be working for Deloitte Consulting, no relation to what I shared with you earlier that this contract is awarded to Deloitte. She added she won't be working on anything related to DOL or LCB because of my previous experience. Earlier this year, probably in the February/March time period, I wasn't sure where I was going to be so I started doing some job searching and I had some conversations. It was recently that they came back and said, "We'd like to explore an opportunity with you." and it was really hard because I knew I'd only been here for a short period of time and I have a really high respect for Rick. But it was something that was a lifetime goal as I ended my career that I really wanted to pursue, which was consulting and being able to use all the skills and experience that I've had over the years to be able to share that and help others with their problems and their issues.

Julia asked what the new cost of SMP project is.

Pat replied she didn't really remember the budget amount. She'll get that for you. It moves the cost of the procurement, so what we would pay for the vendor, for the software and the implementation. But then we have also built into there the staff costs and the projects costs associated with it. I'm thinking around seven million is what we built into it. And I think before it was, like, three million at most.

Rick added, if we're lucky, it will be in the governor's budget next Wednesday. The governor will release his budget on the 12th. He'll dig deep into all the specifics of it, but I think that's one of the things that other's started beginning to look at, which is a problem the government has a lot, is they underestimate the cost of these

projects. This is a great example of that happening again where we were constrained by the fact that I don't think there was enough funding for the program that we needed. And the idea, how we overstretched our employees by having them work on the project and do their work instead of doing what you should do, which is bring other assigned people from enforcement, for example, to do nothing but work on SMP until that project is completed. Typically, it takes about 18 months to bring other people in to those positions that they have rather than burning people out, which honestly, is what we did throughout the agency. And again, we don't go through these projects very often so it's kind of a maturity issue, with respect to this agency, which why I had discussions with Pat about dovetailing with the DOL contract or another bigger project with established expertise. The fact that Pat brought in Clare and others from DOL who have a ton of experience around this increases our maturity for a project like this and sets us up for success. I hope we'll stick with DOL because we're getting all the expertise of the agency to help our agency figure out how to work within that project.

Pat added we need to evaluate whether or not the DOL effort have very similar requirements. I've been in both places so I know the business areas if whether or not, on the enforcement side, it's going to meet all the business needs. That's what I think is really the area that has to be evaluated. We want them to be systems that connect with each other so that enforcement and licensing know what the issues are or they communicate with each other. The gray part with the cots, which is a configurable system, commercial off-the-shelf system, is that these are 18-month increments. So we plan to have this if we use the DOL procurement, we plan to go live in July of 2020. And we're working on traceability, which is on the marijuana side and then after that, we're going to work on a tax of these systems. So there's a roadmap that we've worked on related to our strategic planning that will be our future roadmap of where we're going. I think there also is opportunity to have some business efficiencies out of this where staff are pretty stretch, we're growing. I was surprised at how many wineries have grown in the five years I was gone; how many businesses have come in on the spirits side and also on the cannabis side. We have to also look for business efficiencies that come out of these systems. And they will. It'll really help from an IT standpoint, the resources that we need to manage that, because right now, we're basically band-aiding and holding the system together. We'll be able to use those resources much differently than what we do today. And then just from a pure business standpoint on the licensing and enforcement side, there will be efficiencies for those areas that they'll be able to then redirect to public safety purposes. So I think there's some significant benefits just beyond the need to update the system. And those are kind of laid out in the decision package. It's a really well-done decision package that kind of lays out our business case.

Julia: At the previous advisory committee, the report was that the SMP project could be completed using existing funds. So you're not moving that into the decision package and it will come from general fund requests?

Pat responded; we have in this biennium, we are using the existing funds to start so we don't wait. I think the previous projections were way farther than what Rick was comfortable with. This system is at risk of failing. It can fail at any point in time. It's that old and that fragile, so we did not want to wait until a decision package so we are using existing resources to move forward.

Rick added; in this biennium so we're not waiting to see if we get that package. We're going to use existing funds now, maybe we weren't clear how we were doing that. But no, we wanted to start immediately as soon as Pat was with us to get the system up and running using the existing funds. And then, you know, hedge your bets on the governor's decision package. And then the work they did with OCIO and others to really get a good package together, I'll be surprised if we don't get the funding.

Julia: I think my question is, are we using the funds that were raised through the temporary license fee increase? Pat responded, yes, we didn't ask for those funds in the decision package because, like Chris said, we were trying to hold those to go forward into the future biennium so that's our request. And hopefully, I don't see a problem with that. But are including that as a part of the funding for going forward.

Pat: I think we're trying to be really conscious of how much we spend and that's why we want to do it in the 18-month increment but also conscious of the fact that we have the right level of expertise on this project or it won't meet our business needs and we can't have people have it be a second part of their job. That's something that we're really paying attention to in comparison to the previous time in which we made this effort. Also, vendor

management is something that we have really tightened up on our processes related to that. Ownership on our side from a project standpoint, we can do a much better job of holding vendors accountable to what they said they would deliver in the contract.

Jane added the Board certainly joins Rick in appreciation for your leadership and for your incredible contributions in a very short amount of time. We will miss you, Pat. Thank you.

General Updates and Legislative Priorities - AAC Members

Jane invited AAC members to share their general updates and legislative priorities so we can hear more about what's coming this legislative session. It seems impossible that this year is coming to an end. But we're eager to hear more. We've heard from some of you to some degree but anxious to know some of the activities we'll have.

Josh McDonald – WA Wine Institute

Our priority legislation we're working through this year is an attempt to modernize the way we are able to advertise, promote through our websites and social media when we have events that are not our own. I know in past years, there's been a lot of good work on trying to figure this out. But frankly, when the laws were written, they were not written in the sense of understanding how communications of those means work in the sense of what's of value. So we're running into a tremendous amount of challenges with how we're educating versus how we're promoting and marketing. We think we can bring some of those roles today with also keeping them responsible and fair. There was a recent bill that came out of California that's a bit of a foundation on this. We have partnership with the Brewers Guild, with the Hospitality Association, and possibly others is bringing a bill forward that does allow us to provide some level of advertising and marketing for events like at a restaurant or for when we're crossing to a different tier. And that is really basic, something very nominal but would help our wineries and I think other manufacturers who participate in these events all the time. Allowing them to use these tools that really are the ways that we communicate the most with our customers at this point, through our different social mediums and our website, how we draw people in, how we drive them to events we're doing. We're having a lot of challenges doing that consistently now within the current law. The law, we feel, could use some updating. It's a start to capture what we're trying to accomplish.

Annie McGrath – Brewers Guild

Annie added from the brewers' perspective: I think Josh shares these concerns too, we want to make sure that whatever we're proposing doesn't cross over into paid joint advertising and that this is really specific to social media uses and that we keep it nominal and it's not a requirement or some sort of inducement to have to do a social media campaign in order to get a certain account. We're really looking to clear up these rules so they're kind of in practical use with what social media has evolved into since we passed this law that modernized what we can do now, which I think was back in 2007 or '06. It was before social media even existed, so what we're seeing is that nobody really understand the nuance between what is providing education and what is providing promotion for an event that is not your own. While the information -- we're currently allowed to share this information, there's some semantics involved of what kind of language you can use to share the information and that's what's not happening with our breweries and wineries currently. We would really like to prioritize some areas where we can clean up the rules and make them fairly clear for people when it's a practice that's already occurring, the information's already allowed to be shared. It's just you're limited in what you can say while you're sharing that.

Rick asked: does California allow it in statute or in rule? Josh responded they passed a bill and it's in statute. Josh added it was about a month or so ago. And for us, outside of that, it's a budget year, we're going to have a stronger focus helping WSU and Walla Walla Community College in the Yakima Valley. I think the future of our industry is programs and they need more funding. We want to step up and help drive more ability to bring our next generation of wine makers and vineyard operators the best opportunities we can to be world-class and the

future generation. So part of that goes through our higher education system and we want to try to do our best to help them be successful. That is a goal of the institution.

Amy Brackenbury – WA Beer & Wine Wholesalers Assoc.

I would go next except we don't have a proactive agenda this session. So we don't have any bills that we're going to be promoting.

Jan Gee – WA Food Industry Assoc.

We do have a proactive agenda. First of all, I wanted to let everybody know that as of October 25, the Washington Association of Neighborhood Stores, the convenience stores have merged into our association. We're working together and representing all aspects of our industry, the independents and the convenient stores. I look forward to working with the board on convenience store issues, which kind of flows right in to one of our proactive issues. We will have a bill along with the support of the spirits industry and our vendors that will allow stores under 10,000 square feet to sell 375ml bottles. The 375ml bottles, as long as they are locked up or behind a counter only accessible by the employee. We're putting that prohibition in there because there's limited staff at a smaller store where our larger stores have multiple staff around. We have the bill draft now, sponsors on the house bill and the senate bill will be wrapped up next week. We tried last year to deal with the 20-mile rule issue and I think the legislators probably prefer this approach better than that. So I will get the bill draft over to the staff here as soon as we wrap up with the sponsors in the senate. That's the only proactive bill that we have for legislation.

We do have another issue and we'll be meeting with Beth next week. It has raised its ugly head for about a year and a half with us because we have a lot of events and a lot of members. We also have a lot of wineries, breweries, spirit distributors. We do events where our members can bring in and show their food that is new and different for our stores to be able to carry. We were doing some liquor, too. It has gotten to where one facility we would go to one year said, "No, we can't do that." And the next facility or the next event, would say "Yes, you can do that." So it has gotten very complicated. In talking to Young's Market, which is a member of ours and on our board of directors, they said they have those same experiences with other organizations and other nonprofits where we're getting mixed messages as to what you can do and can't do legally and we want to be legal. Another part of this is; can we put it on our website. This year, we were told we can't for our own event with our own members. So we'll be meeting with Beth but I don't know where that leads us. Is there going to be a way for us to do some rulemaking. We're not sure if we will be able to tackle this issue or if you're going to tell us we have to do some legislation. So it's complicated.

Rick ask Jan, if you're talking about a policy that removes the prohibition of 10,000 square feet for spirit sales, why would you limit them to just pints? Jan replied: I think that we felt like we needed to take some baby steps towards this. One reason is smaller stores have limited space. First, the bill draft came to us as mini bottles and I thought, "oh, no." So then the stakeholders revised it the 375ml and I think they're doing that from a political perspective that the legislature would be more apt to let them have some limited access at first to make sure they're doing it responsibly.

Rick responded: That's interesting because we just had the big debate about mini bottles and making sure everyone was equal. There was some concern about it only applying to some grocers. I don't know where the Board would be. I don't know where the legislature would be because the mandate of the initiative was that we not allow spirit sales in stores with 10,000 square feet or less. Remember, 1100 and 1105 failed because of this and so they came in the next year and said it's only going to be the large grocers that have the ability to sell spirits, because there was concern that there'd be spirits available through all of these convenient stores. I recognize you only had limited space but let them decide what they want to do with that space rather than pint bottles. Jan added, the convenient stores started working on it with the spirit distillers' a few months ago and they brought it forward to us at the merger and asked us to do the bill with the spirits distributors. Jan added, that's interesting input, Rick and thank you. But I would say it's probably just purely a political decision.

Holly Chisa – Northwest Grocery Association

We don't have a specific legislative agenda on this issue this year. We do keep pounding the drum hoping to have a substantive conversation around taxes among the tiers, not just to our benefit but to the industry and consumers as a whole. I do want to commend the Board publicly on working with us on small bottles and coming up with a different approach and pre-regulating sitting down with us. I've been talking to our members on how well they handled coming up with some really good solutions. So thank you for that open door. Then obviously, we're going to follow the curbside pickup, which is a huge issue for us. Millennials do their shopping in a totally different way than those of us who need to pick that up and let them look at it. And so we are adapting to that market. We appreciate your willingness to work with us to figure out a solution for that.

Paul Beveridge – Family Wineries of WA State

Our priorities haven't changed so we'll be running all the same bills we ran last time. Reintroducing tax reform, focus on public safety, and possibly license reform.

Andrea McNeely – Assoc. of WA Spirit & Wine Distributors

Jan's already talked about the small bottle bill. Our clients were hearing it from their customers and so that's where we connect on that. The other two issues we have, either legislatively or by rule are dealing with rule or legislation that would require carriers, common carriers who are shipping alcohol whether they're a certificate of approval holders or not to report those shipments of alcohol and some data associated with that to the Liquor Control Board. And the thinking being that this is happening in other states and it's done some good work in terms of tax collection and capturing taxes that are not collected and also holding those shippers and receivers accountable so that they're not competing unfairly with those who aren't on the list. So that's an issue for us this year. Second issue that we're looking at is clarifying the description of what it means to have alcohol sold from license premise and distributor. It currently just says has to be sold and delivered from licensed premises. We'd like to tighten that up and make some kind of time requirement so that keeps people from skirting the rules on that as well.

Holly: How far down the chain would you go? Is it just on the carrier reporting?

Andrea: yes, it's the carrier that reports the data.

Holly: It's the data required to send back, would it be where he took it to?

Andrea: Yes, who it's from, who it's to. It's essentially the information that's on the label.

Rick: so your idea is to curtail illegal sales that are happening into the state from people that are not using the legal means from the winery to ship it to a consumer? It's the illegal sales you're going after?

Andrea: Yes, the illegal sales.

Rick: So you're going to make those common carriers report to us their sales?

Andrea: Yes, you'd know whose coming in and going out and if they are following the rules.

Rick: And we would note that company had a permit to ship into the state, correct?

Andrea: Right.

Julie Gorton – WA Hospitality Assoc.

Our legislative priorities this year are going to be workforce development and providing some solutions to the affordable housing crisis, which don't have a lot of intersection here, hopefully they don't. So as it relates to liquor issues, our team did meet with your rules and enforcement team and raised a couple of issues that I

addressed at the last advisory committee. I think that we're on a good track to finding some solutions to those. So we don't have any identifying legislation at this point in the liquor arena.

Katie Jacoy – California Wine Institute

We don't have anything that we're running proactively this year. I do want to thank staff for continuing to let us provide comments and work on the rest of the winery rules and we will hopefully continue to work on that process. We will care about the common carrier bill. And so we hope that you would be willing to meet with the stakeholders who have a particular interest in that. I would ask whether anybody has a sense whether there's anybody not paying their taxes.

Rick: Katie, why would you care if FedEx or UPS is reporting?

Katie: It depends on how their reporting requirements are written and whether FedEx and UPS can actually provide the information. A lot of states, not necessarily this state, wholesalers will come in with bills that it's sort of a veiled attempt to shut down some legal shipping. Because they require things in those bills that the common carriers can't report. And so we want to be very careful that we're not trying to shut down what is in the legal end a good shipping program are 20, 30 years in the state of Washington by requiring information that the common carriers don't have. The other problem that we're going to run into is if you're really looking into reports, this is a state where there is no winery report. And I think that's something that -- so you don't have anything to match the common carrier report. So I'm not sure what the benefit of getting the common carriers to report really is to the state. And then the state has to have the resources to decide to go after -- match all this stuff up potentially and then figure out if there's a violation of some sort, which isn't easy. So I guess it's a question that we'll want to talk to you about what it is that you're trying to propose and then whether you guys have the resources to actually implement an enforcement system based on this. Otherwise, it doesn't make a bunch of sense to have common carriers report a lot of information.

Josh: Katie, is there proprietary information in that situation?

Katie: Not typically. I mean, it is done in some states. You know, every single state is different on whether they require reports at all and what kind of reporting they do. You know, whether or not the liquor board then gets these reports and it's got someone's name and address and whether that's something that you would provide in public disclosure. I don't know.

Andrea: And those are the exact issues that we're working on. The intent really is not to deal with a situation where we're trying to shut down a business.

Katie: We'd be happy to talk to you about it. I mean, I've worked on these issues across the country.

Paul: I would second what Katie's saying. As a wine-producing state, it's very important for us to have open shipping laws with as little hassle as possible because these rules are used in other states to keep our products out and make it harder and more expensive for us to get there. So we need to be one of the good examples.

Rick: I thought that the in-state wineries were already required to keep records of shipments they make to consumers and who they go through. No, Josh?

Josh McDonald: I think they keep records for their own purposes.

Holly: We are required to keep records. And out of state wineries shipping in, we hold records. We don't report to you. But you can ask us for the records.

Rick: Because I think some of the wineries have complained in state that they have to keep those records. That's why in the past, issues have raised.

Josh: I mean, it's an accounting burden but, you know, we're doing it now. This is a lot of record-keeping.

Katie: But it's different once you start having to complete a report and submit it on a monthly or quarterly basis and what you do with that.

Troy Nichols – WA Liquor Store Assoc.

Troy Nichols, playing the role of Brad Tower this afternoon. Like many others, we don't have a proactive agenda for this upcoming session but it's nice to know that we won't be bored. Thank you.

Jeff Gombosky – Beer Institute

Nothing proactive from the Beer Institute this year.

Annie McGrath – WA Brewers Guild

I just want to add that we appreciate you guys bringing forward the promoters bill and we will be supporting that bill. These events have been a challenge for brewers. There are many fabulous promoters out there that are working within the rules established for putting on these events. But something that's kind of important to remember is that wineries, breweries, and distilleries are allowed to donate product and labor to special occasion licensed events. We do that because we want the proceeds to benefit charities. We don't do that because we want to subsidize for profit events. And so there are promoters out there taking advantage of that loophole. They are, you know, soliciting charities and saying, "Hey, I'm going to do all this work. I will put on this event. We're going to give you \$5,000" and then walking away with whatever sums come from the event. And that's not why these rules were put in place. It was to really help charities. Breweries love to donate and contribute to communities, so we love doing these events. We do a ton of them. Currently, you guys don't have any sort of enforcement mechanism to go after promoters that might be taking advantage of the system whereas the charities and the manufacturers involved in the events are on the line for any sort of penalties that are incurred at these events. We feel like it's kind of creating more of a level playing field for everybody involved and we're not the only ones that are subject to some sort of enforcement action based on whatever non-compliance is happening at the event. Being able to actually go after whoever's not compliant would be very helpful. So thank you. We didn't want to bring it forward because we think it impacts a lot of stakeholders and we're really happy you're taking the lead on it.

Paul: This question might be best for Chris but who are the promoters you're working with on this bill? What are they saying about it?

Chris Thompson: I've heard only from a couple of promoters, some skepticism, some lack of enthusiasm for new regulation, oversight, and license fees. You know, what are you trying to address here? And some really responsible promoters that are surprised to hear about some of the pretty dangerous incidents that have occurred with some fly-by-night promoters, providing security or people getting shot and things like that.

Paul: Well, I certainly encourage you to reach out to some of those good promoters so they don't all show up in Olympia. I think I heard about this. You know, get their input because I think it's how you do this whether it's going to be successful. Nobody wants unsafe events.

Chris Thompson: Right. And folks that I've heard from do recognize that it's not in anybody's best interest to have that occur and not be in a position to address that situation proactively.

Rick: I just think the issues is not about the good promoters, it's about the bad promoters, the kind of people that go out there and they literally try to look for a 501C3 or a nonprofit so they can make money. Even though, I think, the current law in rules states that all the proceeds are supposed to go to the not for profit. But we see situations where that's not happening. We find that out when we get a complaint and somebody looks. But I think that's the issue to your point, Annie, that we're trying to deal with is people that are simply taking advantage because they can't get a license to do it in this state like they can in some other states to just sell alcohol. To have an event, it has to be a not for profit. And so they've taken advantage of them over the years to

where they actually control the event, control who's serving, and make a commission at least on the event. And that's the thing we're trying to deal with.

Chris: The profit requirement is, I believe, in rule. And the bill would put it in statute.

Katie: I just had a question. I received a copy of the bill from Chris. Thank you very much for sending it. And this is not from my association's interest. It just seems the promoter is defined very broadly. It doesn't seem like you're focused in the bill language on this situation where the abuse is happening. And I was curious to know why you decided to write it as broadly as it's written and not just focus on special occasion licensees in that circumstance.

Rick: Help us narrow it then and focus it, Katie because that's just staff recommendations from the work that they did. They may have been looking at a bill from another state. I don't know. Chris?

Katie: And so the purpose is really to focus in on this circumstance

Rick: I think it is.

Paul: Right now, it's got unnecessary collateral damage. You know, this could hurt bars, small wineries' ability to sell at these events.

Chris: We're open to tightening that up. It took a lot of rocket science into the definition. I understand there are programs in at least a couple of other states. But I haven't seen a definition of a promoter. We're open to input on that. And obviously that's what we would view the legislative process for is to, with your help, tighten that up so that it's well targeted with minimal collateral damage.

Annie: We shared some of our comments with Chris about the definition of promoter and some areas where we think we could improve language too.

Josh: We're starting to share that so we can get to the heart of what the intention of this legislation is. And so we drilled down into it. It's just part of the process. While we're on it, Katie mentioned it and I just want to say, we're on a two-year process for revising our WACS. And there's several really big pieces in there. I just want to thank the LCB board for being very proactive, very solution-oriented with us on that. There's some really important parts of that that we need to get right or they could be very harmful to the industry and you've been very receptive to that. Janette and her team have been great. I've recently talked to Rick on some of this and his team. So we're communicating as much as we can but I just want to say thank you for the open lines and let's keep at it because we've got to get these things right and we will, we'll just continue to be partners on that.

Directors Comments – Rick Garza, Director

One of the things over the last couple years and I'm thinking specifically of the wines and Brewers Guild is going out and doing some of the education that we've done. We started using and in fact, we just released today, the quarterly electronic newsletter on alcohol. I want you all to take a look at that and give us feedback. There's a lot there. It's basically trends and topics that we're dealing with in the field as enforcement or licensing. We typically go to licensing and enforcement for topics that they believe we should share. And then general education. It really has a lot in it. I think that's a really great vehicle to help educate because I remember all the discussions we'd have about, and it's mostly the retail tier that doesn't understand what they can do with a brewery or a winery or a distillery at a retail location, at the distillery, or at a special occasion. For some reason, we can all take responsibility for that. And so part of the education is trying to do that and use a newsletter and maybe bulletins. We're open to talking about how we make this work better. I want to thank the staff for doing a really nice job. We've got about 9,000 people that are getting pieces of education that are using the website, 3,000 that are signed up for the newsletter. And then we've got a number of people, 2,500 Twitter followers, believe it or not. 13,000 people that are getting access to the newsletter through our website. So obviously folks are using it. And hopefully it's all three tiers that are using it. I don't think it's just citizens going there to look for this information. So

it must be working. I just wanted to thank folks. And then give us feedback on what's missing. You can have that direct contact with Becky or with Justin, our enforcement chief or with Brian through the website to give us feedback on issues that we need to address that are not part of that discussion. I know the board's been working hard the last two years to try to find different ways of communicating with stakeholders. This is an important way of doing it, plus, opening up our Board meetings that you've been doing.

I thought it was interesting that today I saw something where WSWA had taken a formal position to legalize cannabis and is now going to congress to share a position that's been kind of formulating over the last couple years. They're taking a formal position to legalize and remove the ban on cannabis, which gets us to the next discussion. And you'll see in the newsletter about CBDs and alcoholic beverages and can you put it in there. There's situations in, Massachusetts and California where some of the breweries got their hands spanked by TTB because they were all basically adulterating alcohol, because you can't put a schedule one controlled substance in it. People will get confused about what THC and CBD, any part of the cannabinoid is illegal in alcoholic beverages. But there's kind of an update in the newsletter that talks a little bit about that. They're putting CBD, as you know, in everything and it's all over, let alone alcoholic beverages. So it'll be kind of interesting to see if there's something just for a moment on CBD in the legislature to try to regulate it. Right now, it only becomes part of the regulate cannabis industry here for the board if it has a touch of THC in it. If it's just a CBD product then it can be sold and you can see its being sold in all kinds of different forms all over the state, as well in the country. It's a big federal issue or a national issue, this whole issue with CBD. We'll provide more information as it relates to the stuff that you guys are involved in.

Julie asked Rick: at the last advisory meeting, you talked about the project you're working on. I can't remember the name of it but reasonable access or something like that.

Rick shared it was called appropriate access.

Julia asked if there was an update.

Chris responded: Update on appropriate access -- so we have been working on that. We haven't had quite as much time as we'd have liked to devote to it. We may end up working in a couple of phases. But for the initial step we're contemplating is, to sit down with Rick and let him know where we are. We met with Jane yesterday and so we're doing a couple of things. We're trying to crystallize some policy questions that we would consider as we review requests for rulemaking or legislative issues that come up. And primarily, those are under the heading of youth access, public health and safety, social norms around alcohol presence and consumption, agency impacts, and then external impacts, whether that be local law enforcement or other issues. We also want to be more aware of where there might be a need for public education, let's say, around proposals. So that's sort of the focus at this point. We want to also gather more information about, where things stand with respect to the lay of the land now. This is mostly for internal use. So we would use these kind of focusing questions to help us evaluate proposals coming before the legislature and what to say or not about them. We're still at a stage where we're drafting language around those questions. We've got to have some more internal discussion. We do want to have some discussion with stakeholders as we've mentioned here before. But with some other projects that became more involved and had more urgent deadlines around them, this has been not on a slow track but on a slower track that we had initially considered. We talked about a wider range of criteria to look at. Initially, we may come back to that but I don't know if what I said is really clear or speaks to or gives you an idea of our focus. But it's a little narrower than we'd originally talked about: its youth access, its outlet density, its public health and public impacts, not just for this agency but for others, including at the local level. So it's also trying to be a little bit more aware of issues that haven't traditionally been kind of on the front burner for us that Mary Segawa and now Scott will be working on in the domain of public health.

Julia: I think what piqued my interest from your summary was evaluating social norms.

Chris: Right. So as an example, there was legislation last session where the Puyallup Fair was asking for the opportunity to let patrons buy a beer and carry it around the fairgrounds. There are some enforcement questions that come up for us in that kind of a situation. But there might also be, under this kind of broader framework,

some questions that we might think about in terms of what that presents as an image of everyday normal behavior that minors are seeing in more and more places, in more and more settings, more and more family-oriented settings and what does that mean for social norms and responsible use and those kinds of things, apart from just do we have enough stuff to put boots on the ground and monitor an event at the fair where this kind of activity is allowed?

Julia: So is the goal of the project to try and set parameters around at what point the board will take a support or opposed position on legislation?

Rick: I think that's fair. It's not just legislation. I think it's also policy and rulemaking. It's whatever comes before the Board that has to do with increased access. It's not an easy one and this is difficult. But the fair is a really good example where they have continued to ask year after year for more access points, more alcohol. They even had a proposal to allow them to sell spirits to go from the fair. And so I just think for us, the whole norming issue, which is not easy, I think it's the most difficult piece of this. They'll say, "Well, I can buy a beer at the baseball stadium. Why is that different than at the fair?" And I think we're trying to say, "Well, it's a little bit different. That's a family event." Typically where there are lots of kids at the fair, do you really need to make the access points so great when it just to be one beer garden and one wine garden at the fair. That's where it was ten or 15 years ago. It's a lot different now and Becky knows how many access points. So I think it's that balance of trying to figure out, for the public, what is enough and when do we need to stop and consider that maybe there are enough access points now. It's just not an easy thing to answer. But that's what we're trying to get at because then we're asked, "Well, what lens do you look through to determine whether that's appropriate or not?" And that's what we're trying to figure out.

Jane: Going back to Chris' comments, the framework, if you will, is more of a policy review framework. And in my mind, I like to think about it through that lens. It would bring some continuity and consistency to the way that we review and consider when deciding to support or not support a particular proposal or we have something before us that we need to carefully evaluate. It's getting crisper around key priorities. And again, we'll be working with stakeholders when we have a point of departure to consider.

Chris: It would also, as we mentioned, it would be a tool we use internally to think through policy questions. It may also inform how we talk about policy issues before the legislature, as well as administratively in rule. So our intended uses for this tool and this way of thinking about issues coming before us are for our own internal use, primarily.

Paul: Have you thought about the safe places to access product. Maybe the biggest problem facing small wineries, breweries, and distilleries in Washington is no one can access our products. We have nowhere to sell them but basically our tasting room. Corporate wine, beer, and spirits are available everywhere. So maybe if we looked also at the same time, making it easier and a safe, well-regulated environment, some more channels, that might help reduce the pressure of this constant sort of, oh, let's do the state fairs. Oh, let's do the art galleries. Oh, let's do this. Let's do that. Just an idea. There's two sides to this issue.

Closing Comments

Chair Jane Rushford: I want to thank you all for being here and also encourage you to let me or Cindy know if there's something you'd like on the agenda. We'd want to make this meeting as meaningful as possible. I think we can capitalize on this opportunity together. If there are issues or updates that you would like agenda time to share with the group or receive feedback, we would really appreciate knowing that and working toward that. With that, I guess we'll see you at the legislative session. And happy holidays to everyone. Thank you.

Follow up question: Julia Gorton asked what the new budget request for the SMP project was.

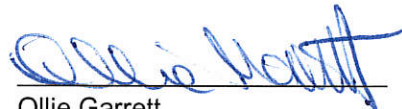
- Funding for SMP was provided in the Governor's budget released on Dec. 13, but at a lower amount than was requested. The amount provided in the budget is \$9.9 million.

Chair Rushford adjourned the meeting at 3:00 pm.


Minutes approved this 4 day of JUNE, 2019.



Jane Rushford
Board Chair



Ollie Garrett
Board Member



Russ Hauge
Board Member

Minutes Prepared by: Cindy Doughty, Administrative Assistant to the Board