



CR103 Memorandum

Regarding Amendment to WAC 314-55-075 – Marijuana producer license – Privileges, requirements and fees.

Date: June 23, 2021
Presented by: Kathy Hoffman, Policy and Rules Manager

Background

RCW 69.50.345(3) directed the Washington State Liquor and Cannabis Board (WSLCB) to adopt rules establishing the “maximum quantity of marijuana a marijuana producer may have on the premises of a licensed location at any time without violating Washington state law.” WSLCB implemented this directive in rule as WAC 314-55-075(6), establishing a three-tier system based on the amount of actual square footage designated as plant canopy. Within that system, the Tier 1 category authorizes a producer licensee to designate up to two thousand square feet of their premises as plant canopy.

Rules related to canopy assure that a single business is prohibited from producing beyond a certain point within set boundaries for the three tiers of production. The number of production licenses for an individual business is limited to maintain production boundaries for individual businesses. Thus, the three tiers of production provide defined spaces for businesses of different sizes.

The complete background, including market analysis, for this project is extensive, and explained more fully Attachment A, CR 102 Memorandum.

Rule Necessity

These rules are needed because Tier 1 licensees have experienced business sustainability and viability challenges based on canopy space restrictions. The option to expand production capacity is anticipated to support Tier 1 producer viability and sustainability in the competitive Washington State cannabis market.

Description of Rule Changes

Amended Subsection. WAC 314-55-075(6)(a): Increases Tier 1 square footage designated as canopy from up to two thousand square feet to up to four thousand square feet.

Amended Subsection. WAC 314-55-075(6)(b): Modifies Tier 2 square footage designated as canopy from two thousand square feet up to ten thousand square feet, to four thousand square feet up to ten thousand square feet.

Variance between proposed rule (CR102) and final rule:

There is no variance between the proposed rule and the final rule.

Rule Implementation

Informing and Educating Persons Impacted by the Rule

To help inform and educate persons impacted by the rule, the WSLCB will:

- Email notice with the adoption materials to persons who commented on the rules, the rule making and licensee distribution lists, and the general WSLCB GovDelivery list;
- Post rule adoption materials, including final rule language, response to comments, final analysis (Concise Explanatory Statement), and any other relevant documents on the rulemaking webpage for public access.
- Provide information and training on request.

Promoting and Assisting Voluntary Compliance

WSLCB will promote and assist voluntary compliance through technical assistance.

- WSLCB staff are available to respond to phone and email inquiries about the rules.
- Agency leadership and staff have actively participated in rule development and revisions, and are familiar with the final product. Internal and external education efforts to share knowledge and assure consistent application of rule have will be supported.
- Rule and guidance documents will be available on the WSLCB website.
- WSLCB will use available and customary resources to disseminate materials and information to all persons impacted by the rules.

These actions are designed to inform and educate all persons impacted by the rules to support and promote voluntary compliance.

Training and Informing WSLCB Staff

Several WSLCB staff responsible for implementing these adopted rules work directly with impacted parties and are already familiar with the nuances of the rule changes. Additional internal guidance documents may be prepared as necessary. The WSLCB will also consider:

- Provision of internal and external training and education, as needed, potentially including webinars, training, and videos if appropriate;

- Coordinating and centrally locating decisions to assure consistency between agency, staff, and industry.

Rule Effectiveness Evaluation

The WSLCB will evaluate the effectiveness of these rules in the following ways, including but not limited to:

- Monitoring questions received after the effective date of these rules, and adjusting training and guidance accordingly;
- Monitoring the number of enforcement actions, including type, resolution, and final outcome;
- Monitoring the number of requests for rule language revisions or changes;
- Monitoring the number of requests for rule interpretation;
- Monitoring licensee feedback including, but not limited to, the number of requests for assistance.

Attachments:

Attachment A: CR 102 Memorandum

Attachment B: Final Rules

Attachment C: Concise Explanatory Statement



CR102 Memorandum

Regarding Amendment to WAC 314-55-075 – Marijuana producer license – Privileges, requirements and fees.

Date: April 28, 2021
Presented by: Kathy Hoffman, Policy and Rules Manager

Background

RCW 69.50.345(3) directed the Washington State Liquor and Cannabis Board (WSLCB) to adopt rules establishing the “maximum quantity of marijuana a marijuana producer may have on the premises of a licensed location at any time without violating Washington state law.” WSLCB implemented this directive in rule as WAC 314-55-075(6), establishing a three-tier system based on the amount of actual square footage designated as plant canopy. Within that system, the Tier 1 category authorizes a producer licensee to designate up to two thousand square feet of their premises as plant canopy.

Rules related to canopy assure that a single business is prohibited from producing beyond a certain point within set boundaries for the three tiers of production. The number of production licenses for an individual business is limited to maintain production boundaries for individual businesses. Thus, the three tiers of production provide defined spaces for businesses of different sizes.

CR 101

In the time since tier limits were established, WSLCB has received requests from medical cannabis patients and segments of the industry to increase the availability of Department of Health (DOH) compliant cannabis product in licensed retail stores. WSLCB also learned that Tier 1 licensees were concerned about business viability based on canopy space restrictions. Recognizing this, WSLCB opted to begin exploring how it could support Tier 1 producers. Initial ideas included, but were not limited to incentivizing the production of DOH compliant product. On December 18, 2019, the Board approved a [Preproposal Statement of Inquiry](#) (CR101) to open discussion around revisions and new rule sections that would incrementally expand the plant canopy square footage allowed for licensed Tier 1 producers. This approach supported patient access to safe cannabis products in alignment with the stated priorities of [Second Substitute Senate Bill 5052](#) (2015 legislative session), and was aligned with the goals of improving medically-compliant cannabis availability and identifying barriers to small business success described in WSLCB’s [2019 – 2024 Strategic Plan](#).

After the CR101 was filed, and during the 2020 legislative session, [House Bill \(HB\) 2871](#) and its companion [Senate Bill \(SB\) 6603](#) were introduced. The agency request proposals would have granted the smallest producers additional privileges to help them

compete in the highly competitive marketplace as well as create additional access to medical cannabis products. These bills did not progress.

History of Washington State Cannabis Canopy

Early thinking around cannabis production estimated that demand in Washington State could be served by approximately 100 large producers, 100 processors and 350 retailers. After Initiative 502 passed, the Board conducted listening/town hall sessions across the state. One of the prominent themes emerging from these sessions was the request to consider including small businesses in the market to discourage participation in the illicit market. In response, WSLCB made the policy decision to shift focus from larger grows with economy of scale to smaller grows as a way to encourage more participation in the regulated market as a way to curb continued grey and illicit market activity.

Unlike cannabis retailer licenses, there was not a pre-determined cap on producer licenses. Instead, a window for accepting applications was opened, and all applications received during that time were processed. Applicants indicated a preference for one of three tiers that limited the size of their operations. Rules that govern canopy, specifically WAC 314-55-075, were initially promulgated in October 2013, and have been amended several times since then as follows:

WSR	EFFECTIVE DATE	AMENDMENT
14-10-044	May 31, 2014	Expanded production and wholesale activity between licensed producers to include harvest, trim, drying, curing and packaging; expanded sales between licensed producers to include plants, seeds and plant tissues.
15-11-107	June 20, 2015	Expanded the maximum amount of space for cannabis production from two million square feet to eight and one-half million square feet based on marketplace demand and Board approval. (Originally proposed as emergency rule on February 25, 2015 as WSR 15-06-029)
15-19-165	September 23, 2015	Emergency rule: Struck language regarding total maximum amount of space for cannabis production; reserved determination for a later date. (Refiled on January 6, 2016 as WSR 16-03-001 , and on April 6, 2016 as WSR 16-08-123)
16-11-110	June 18, 2016	Added requirement that outdoor grow must be physically separated by at least twenty feet from another licensed outdoor grows, and that grows may not share common walls or fences. Permanently struck language regarding total maximum amount of space for cannabis production; reserved determination for a later date (consistent with previous emergency rules).
16-19-102	October 22, 2016	Added allowance for licensed cannabis producers to sell cannabis plants to members of a registered cooperative under the conditions of WAC 314-55-410.
18-22-055	December 1, 2018	Added several allowances, including the sale of immature plants or clones and cannabis seeds to qualifying patients or designated providers, and to licensed cannabis researchers; updated annual license fee; indicated that application window for cannabis producer licenses is closed; added provisions regarding adulteration of usable cannabis; added requirement that cannabis producers must make quality assurance tests available to and processor purchasing product and must label with lot number, UBI number, and product weight.

While rule language concerning the total maximum amount of space for cannabis production was ultimately reserved for a later date, the rules concerning production capacity for each tier have not changed since 2013. Since current rule does not identify

the total maximum amount of space for cannabis production,¹ total licensed canopy is the sum of allowable canopies for all producer licenses issued. This is contrary to the popular belief that total canopy was calculated based on the projected demand with a corresponding number of licenses issued to meet that demand. As a result, WSLCB find that total licensed cannabis canopy and demand are unrelated.

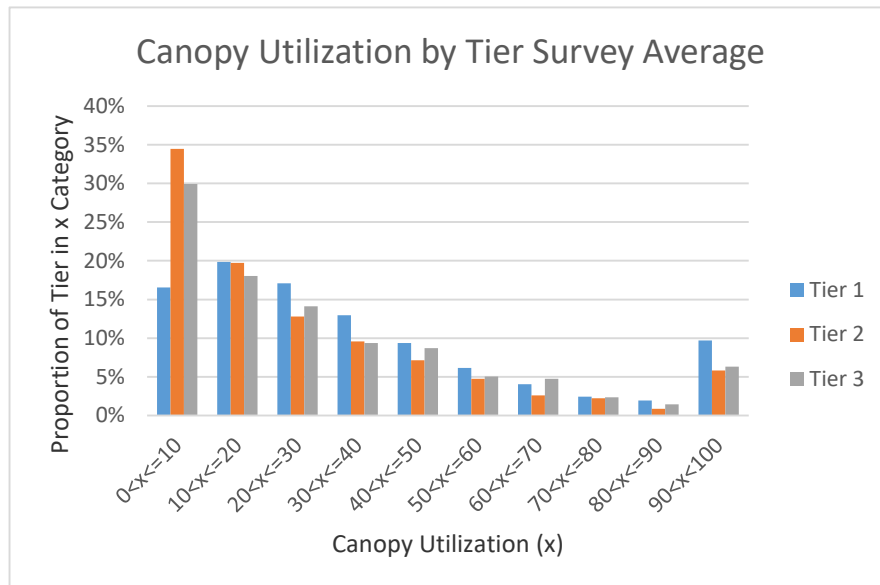
Current Washington State Cannabis Canopy

To better understand current space utilization of the total licensed canopy, a team of analysts was assembled to conduct field assessments of cannabis licensee production operations. Licensed production operations were evaluated twice each from 2017 to 2019 resulting in [two reports](#)² on canopy utilization. Data from the field assessments indicated that most licensees had less square footage in cultivation than their maximum allowance.

For the first report, 792 producers were surveyed. The report concluded that approximately 59% of the total licensed canopy was being utilized for production.

For the follow up report, 773 producers were surveyed. This survey found that approximately 52% of licensed canopy was in production.

Combined data from both reports provides a visualization of average canopy utilization by tier:



Source: https://lcb.wa.gov/marij/canopy_report; WAC 314-55-075(6)-tier designation

The drop in production from the first report to the second report suggests alignment with the end of declining prices as supply and demand adjusted to market dynamics. From the inception of the industry in 2014 through the fall of 2019 there was a steady decline in the price of cannabis as the supply chain completely filled out with producers.

¹ WAC 314-55-075(6): The maximum amount of space for marijuana production cannot exceed the amount licensed. Applicants must designate on their operating plan the size category of the production premises and the amount of actual square footage in their premises that will be designated as plant canopy.

² https://lcb.wa.gov/marij/canopy_report

Prices found their low point in the fall of 2019. At that time, feedback from producers indicated that some were not able to sell all of their product at any price. However, since that time prices seem to be stabilizing and have risen slightly.

This suggests that total licensed canopy is not a constraining factor in overall production, and existing producers have sufficient unused capacity to meet current and future demand for cannabis.

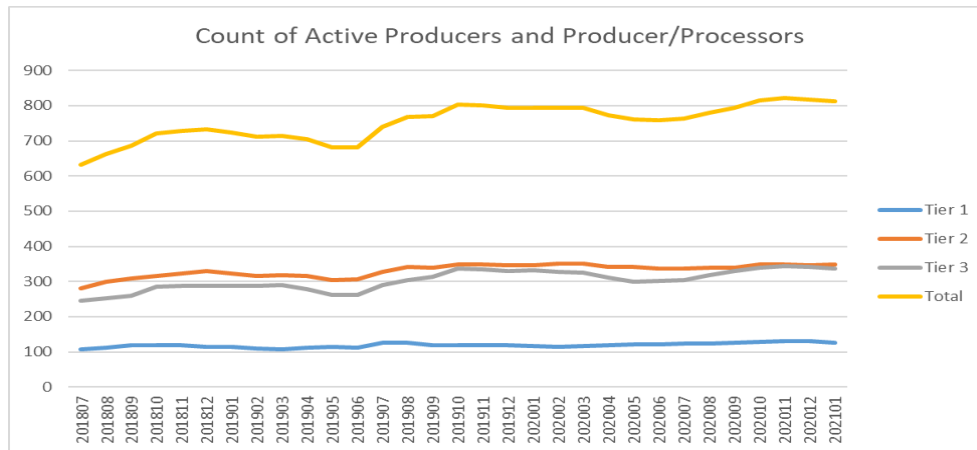
Projected Impact

As of February 2021, the current 1,074 licenses issued for producing cannabis totals 18,040,000 square feet of licensed canopy.

	Total Licensed	Licensed Canopy Min. (Sq. Ft)	Licensed Canopy Max. (Sq. Ft)	Min. Total	Max. Total
Tier 1	175	0	2,000	-	350,000
Tier 2	464	2,000	10,000	928,000	4,640,000
Tier 3	435	10,000	30,000	4,350,000	13,050,000
			Total	5,278,000	18,040,000

Source: WSLCB Licensing Database; WAC 314-55-075(6)-tier designation

Based on current rule,³ the canopy cap is equivalent to what is currently licensed. WSLCB staff review of data indicated 812 producer licenses are active, suggesting that slightly less than 76% of issued producer licenses are active. For purposes of this analysis, “active” means a producer transferred product by manifest in the previous six months.⁴ The chart below provides a visualization of active producers and producer/processors over time.



Source: WSLCB Licensing Database; WSLCB Traceability System; WAC 314-55-075(6)-tier designation

³ WAC 314-55-075

⁴ An “active” license as defined here is an assumption made to allow for meaningful description of reported behavior of marijuana businesses. Since it is an assumption I think it should be stated clearly in anything that makes reference of those charts in order to make them more robust. While the WSLCB licensing system generally identifies an “active” license as an issued and not suspended license, the definition used in association with the data presented in this document is applied solely to narrow down the population of cannabis business holding a valid license to those that were actively using that license.

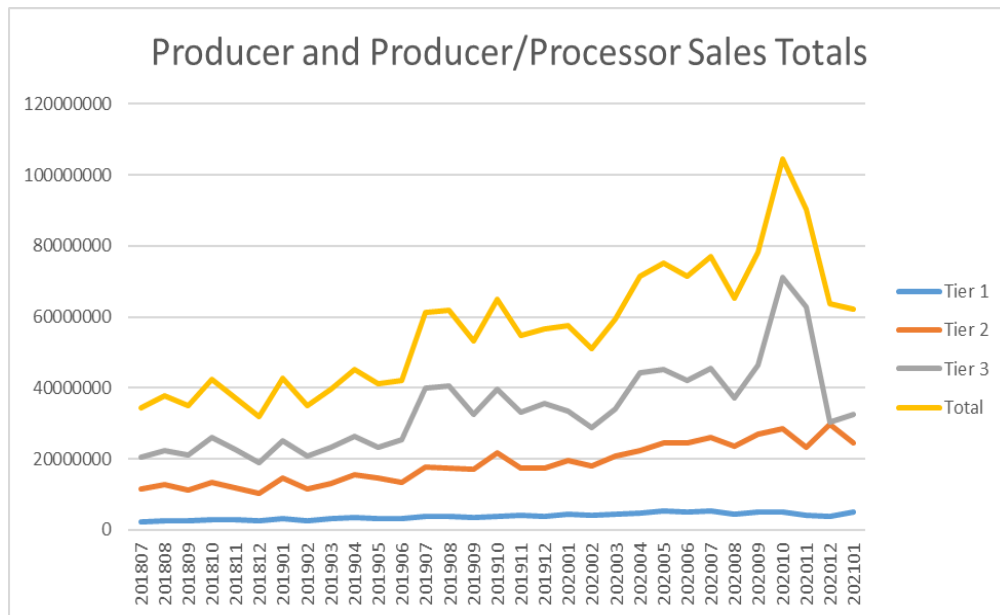
Canopy totals for the 812 licensed, active producers:

	Total Licensed	Licensed Canopy Min. (Sq. Ft)	Licensed Canopy Max. (Sq. Ft)	Min. Total	Max. Total
Tier 1	125	0	2,000	-	250,000
Tier 2	349	2,000	10,000	698,000	3,490,000
Tier 3	338	10,000	30,000	3,380,000	10,140,000
			Total	4,078,000	13,880,000

Source: WSLCB Licensing Database; WAC 314-55-075(6)-tier designation

Tier 1 production canopy represents 1.94% of the total licensed canopy. Active Tier 1 production canopy represents 1.8% of the total licensed active canopy. Even if every active Tier 1 licensed producer added an additional 2,000 square feet of production capacity, Tier 1 licensed canopy would represent only 3.6% of the total active licensed plant canopy. This is the equivalent of adding less than 9 Tier 3 licenses in terms of total additional canopy, although that equivalency would be spread out among 125 businesses, and that is assuming that all active Tier 1 licensees double their current production space. The agency does not expect that this will occur.

Additionally, WSLCB anticipates very little overall market impact as a result of allowing Tier 1 production space expansion. Since 2017, Tier 1 producer and producer/processor sales have remained fairly static. In the table below, it is important to note that association between sales and tier is not an indicator of profit, success, or both. The wholesale relationship presented below reflects volume and wholesale totals by month of producer and producer/processor licensees broken out by producer.



Source: WSLCB Licensing Database; WSLCB Traceability System; WAC 314-55-075(6)-tier designation

For these reasons, WSLCB anticipates that providing licensed Tier 1 cannabis producers with the option to expand growing capacity from 2,000 square feet to 4,000 square feet will have little, if any, impact on the current market. At the same time, doing so will add value to the Tier 1 producer license type, support business viability, creating an opportunity and pathway for Tier 1 licensees to become more competitive in an already competitive market.

WSLCB Stakeholder Engagement

As part of the rule development process, two Listen and Learn sessions were held on June 23, 2020 and June 30, 2020 respectively. The first session was virtually attended by approximately 70 unique users, and the second by over 50 unique users. Consistent with the purpose of statement in the CR 101, these two sessions were designed to engage with the industry and other interested parties to review current rule section WAC 314-55-075, pertaining to marijuana producer license – privileges, requirements, and fees. Very few Tier 1 licensees attended or participated in either discussion. Some Tier 1 licensees communicated to rules staff that it was difficult to attend the sessions because they are small businesses and unable to spare personnel during normal business hours, while others indicated a fear of speaking honestly for fear of reprisal from other licensees.

Common themes that emerged from the Listen and Learn sessions:

- Direct sale of cannabis product to the public, possibly limited exclusively to medically compliant product or limited to sale of product only to medical card holders (requires statute change)
- Expanding canopy could support business viability for smaller producers and processors
- Allowance for licensees to move to Tier 2 or Tier 3 depending on maximum state canopy capacity; some suggesting to removal of tiers altogether
- Base licensing fees upon tier level (requires tiers to be established under statute and related statute change to licensing fees)
- Increase allowable licenses held from three to five, in line with total retail licenses allowed – as proposed by participants, would not necessarily be exclusive to Tier 1 licensees
- Canopy square footage requirements are difficult to uniformly measure and infrequently enforced.

The Policy and Rules unit determined that to best elicit feedback directly from Tier 1 licensees, a targeted survey of those licensees would be necessary. The results of that survey were released on April 2, 2021, and posted to the WSLCB rules website.⁵

Rule Necessity

Tier 1 licensees have experienced business sustainability and viability challenges based on canopy space restrictions. The option to expand production capacity is anticipated to

⁵ [Tier1_Report_FINAL_Rev 3 Data Attached.pdf \(wa.gov\)](#)

support Tier 1 producer viability and sustainability in the competitive Washington State cannabis market.

Description of Rule Changes

Amended Subsection. WAC 314-55-075(6)(a): Increases Tier 1 square footage designated as canopy from up to two thousand square feet to up to four thousand square feet.

Amended Subsection. WAC 314-55-075(6)(b): Modifies Tier 2 square footage designated as canopy from two thousand square feet up to ten thousand square feet, to four thousand square feet up to ten thousand square feet.

Attachment:

Listen and Learn Comment Matrix (June 23, 2020 and June 30, 2020 sessions combined)