



# Banking the Marijuana Industry

## Initiative 502 Implementation

*Creating Washington's System of Legalized Marijuana*

Presented by:

Randy Simmons, Deputy Director

June 24, 2014



# Disclaimer

Today's presentation is designed to inform this audience of the current status of Initiative 502's implementation, its timeline, challenges facing the state and expected next steps.

The views expressed today represent the speaker's summary of these current events and are subject to change based on the final decisions of the Board.



# Recreational vs Medical

Regulated

Unregulated

Licensed

Unlicensed

Product Testing

None

Child Proofing

None

Violations

None



# I-502 Key Elements

**Creates world's first comprehensive system of growing, processing and retailing marijuana.**

- Legalized system of producing, processing and retailing marijuana for adults age 21 and older
- Decriminalizes possession of one ounce of marijuana
  - 1 ounce of useable marijuana for smoking
  - 16 ounces in solid form
  - 72 ounces in liquid form
- Creates three-tier system of licensing, regulation and taxation similar to alcohol
  - Producer license (grower)
  - Processor license (prepares for retail)
  - Retail license (operates marijuana only stores)



# Key Elements continued

## Washington's system...

- Taxation
  - Imposes 25% tax at all three license levels
  - B&O and local sales tax also apply
  - OFM fiscal note estimated between \$0 and \$2 billion over five years
- Public Safety and Education
  - Establishes a THC bloodstream threshold for marijuana DUI's
  - Limits on store locations, advertising and number of outlets
  - Earmarks revenue for healthcare, research and education



# Agency Objective

## Public Safety

- Creating a tightly controlled and regulated marijuana market

## Agency Role and Responsibilities:

- Creating a 3-tier regulatory system for marijuana
- Creating licenses for producer, processor and retailer
- Enforcing laws and rules pertaining to licensees
- Collecting and distributing taxes/fees



# Laws and Rules

## The Difference Between I-502 Laws and Rules

- Laws
  - Enacted by Legislature and signed by Governor
  - Enacted by voters (initiatives and referendums)
    - Initiatives require 2/3 vote by Legislature to change w/in two years
- Rules
  - Detailed regulations necessary to implement the law
  - Clarifies what is allowed or not allowed under law
  - Created by state agency, board (WSLCB) or commission
  - Rules cannot change the law in any way
  - Public and transparent process for creating rules
  - Once final, they provide the structure for participation in the system



# Initial Steps

## External Teams (providing technical expertise)

- Contract with BOTEK Analysis Corporation to provide technical expertise
  - Expert in many aspects of criminal and drug policy, including probation and parole, incarceration, and marijuana policy
  - Co-author of the book *Marijuana Legalization: What Everybody Needs to Know*

## Public Outreach

- 14 public forums/special meetings statewide
- Meeting with community groups, medical marijuana industry members and associations, law enforcement and editorial boards
- Webinars and meetings with local government officials

## Comparing Notes with Colorado

- Ongoing dialog with Colorado and other state agencies





# Rules Highlights: License Requirements

## 30 Day Window

- The LCB opened registration for all license types for a 30 calendar day window
- LCB may extend the time or reopen application window at its discretion
- Received over 7,000 applications
- Colorado used the same method. Approx. 50 percent folded w/in 18 months

## State Residency Requirement

- The LCB requires a three month state residency requirement
  - Applies to all license structure types



# Rules Highlights: Public Safety

## Background Checks

- Personal criminal history form
- Fingerprinting of all potential licensees
- WSP and FBI back background checks of licensees and financiers

## Point system

- LCB will apply a disqualifying point system similar to liquor (exceptions for possession)

## Security and Safeguards

- Alarm and surveillance video camera requirements (including minimum pixels and lockbox encasement)
- Strict transportation and record keeping requirements (no third party transport of product)
- Hours of operation limited to 8:00 a.m. to 12:00 a.m.



# Rules Highlights: License Requirements

## Licensed Location: 1,000 Foot Measurement

- Under the Board's rules, the 1,000' buffer between the perimeter of the licensed business and the perimeter of places where children congregate is measured by following a common legal path (sidewalks, crosswalks, etc.)
- Following the Department of August 29, 2013, Department of Justice's Enforcement Guidelines, Washington's two US Attorneys informed Gov. Inslee that it will enforce federal law using a straight line to measure the 1,000' buffer.
- The LCB filed an emergency rule on November 6, 2013, that revised the current language regarding the 1,000' buffer.
- The language in the emergency rule states:
  - "The distance shall be measured as the shortest straight line distance from the property line of the licensed premises to the property line of an elementary or secondary school, playground, recreation center or facility, child care center, public park, public transit center, library or arcade where admission is not restricted to those age 21 and older."



# Rules Highlights: License Requirements

## Costs and Fees

- \$250 application fee
- \$1,000 annual renewal fee
- Additional fees for background check and filing for local business license

## Taxes

- License applicants must submit a signed attestation that they are current on taxes owed to the Washington State Department of Revenue

## Insurance

- Licensees are required to carry commercial liability insurance



# Rules Highlights: Public Safety

## Producer Structures

- Rules allow producer operations in secure indoor and outdoor grows, as well as greenhouses

## Traceability

- LCB will employ a robust and comprehensive traceability system (software) that will trace product from seed/clone to sale
- LCB enforcement can match records to actual product on hand

## Local Authority Objections

- Substantial weight will be given to a local authority during the renewal process based upon chronic illegal activity associated with the licensee's operation of the premises



# Rules Highlights: Public Safety

## Violation Guidelines

- \$1,000 administrative penalty for minors frequenting
- Sets strict tiered system of violation record over a three year period.  
Example:
  - Group 1 public safety:
    - First violation: 10 day suspension or \$2,500
    - Second violation: 30 day suspension
    - Third violation: license cancellation
- Furnishing marijuana to a minor remains a felony offense

## Child Resistant Packaging

- Specific requirements for marijuana and marijuana infused products in solid and liquid forms



# Rules Highlights: Public Safety

## Advertising Restrictions

- Law restricts advertising within 1,000 feet of schools, public parks, transit centers, arcades, and other areas where children are present
- May not contain statements or illustrations that: are false or misleading, promotes overconsumption, represents that its use has curative or therapeutic effects, depicts a child or may be appealing to children
- All advertising must contain two statements: a: “This product has intoxicating effects and may be habit forming.” And, b: “Marijuana can impair concentration, coordination, and judgment. Do not operate a vehicle or machinery under the influence of this drug.”

## Limits on Retail Stores

- Total number of retail outlets limited to 334 statewide
- LCB to provide advance notice to local authority
- Per I-502, LCB to determine number of retail outlets
  - BOTEK Analysis Corporation provided initial county consumption levels
  - Retail stores allocation proportionate to population and consumption



# Rules Highlights: Consumer Safety

## Strict Packaging and Labeling Requirements

- Limited servings and concentration per package
- Lot number
- Warning label
- Net weight
- Concentration of THC
- Usage warnings (specific warning for ingestible foods and/or liquids about effect delays)
- Upon request
  - Third party lab that tested lot and results
  - All pesticides, herbicides, fungicides found in product





# Rules Highlights: Consumer Safety

## Lab Tested and Approved

- All lots will be tested by independent accredited labs
- Established and uniform testing standards

## Store Signage and Product Warnings

- No minors allowed in stores
- Required product and usage signs within stores



# Rules Highlights: Consumer Safety

## Behind the Counter Storage

- No open containers or handling of product
- Sniff jars with sealed, screened-top lids allowed

## Defined Serving Size

- Defined serving sizes on marijuana-infused product label
  - 10 mg of THC per serving
  - 100 mg of THC per product
  - A single unit of marijuana-infused extract for inhalation cannot exceed one gram

## Transaction Limits on Concentrates

- A single transaction is limited to seven grams of marijuana-infused extract for inhalation



# Potential Issues and Challenges

## Federal Guidelines

- Doesn't change federal law
- Focuses on eight points of emphasis including youth access and public safety

## Minimizing Illicit Market

- Balancing product demand with production and over-production

## Medical Marijuana

- Competing system that is largely untaxed and unregulated
- 2013 budget proviso directed LCB to work with Department of Revenue and Department of Health to make recommendations on how to regulate medical marijuana. Recommendations submitted to the legislature Jan. 1, 2014

## Banking

- Guidance from the Dept of the Treasury allows banks to do business with marijuana licensees
- Doesn't change federal law



# Washington State Liquor Control Board

## Recreational MJ Market May 14, 2014

Period	Estimated Sales	Estimated License Fees	Total
FY16 (July 2015 - June 2016)	\$134,242,000	\$2,300,000	\$136,542,000
FY17 (July 2016 - June 2017)	\$382,073,000	\$2,300,000	\$384,373,000
FY18 (July 2017-June 2018)	\$615,016,000	\$2,300,000	\$617,316,000
FY19 (July 2018 - June 2019)	\$760,853,000	\$2,300,000	\$763,153,000
Estimates are based on the Economic Revenue Forecast Council			
February, 2014 forecast.			



# Staying Connected

- Established a I-502 Webpage. [www.liq.wa.gov](http://www.liq.wa.gov)
  - Factsheets
  - FAQs
  - Timelines
- Listserv with over 4,000 subscribers to date.
- Webinars with city and county officials.
- Public hearings on rules will be posted on website and publicized on the listserv.
- News coverage is hard to miss. News nearly every day.



# Marijuana Licensing & Investigation Process

Rebecca Smith & Nicola Reid

Banking the Marijuana Industry: Open Forum

June 24, 2014



# Application Process

- GIS - geographic information system
- Initial telephone interview
- Request for Required Documents
- Financial Investigation
- Review of submitted documents
- Final Inspection
- Fee Collection



# Application Received by WSLCB

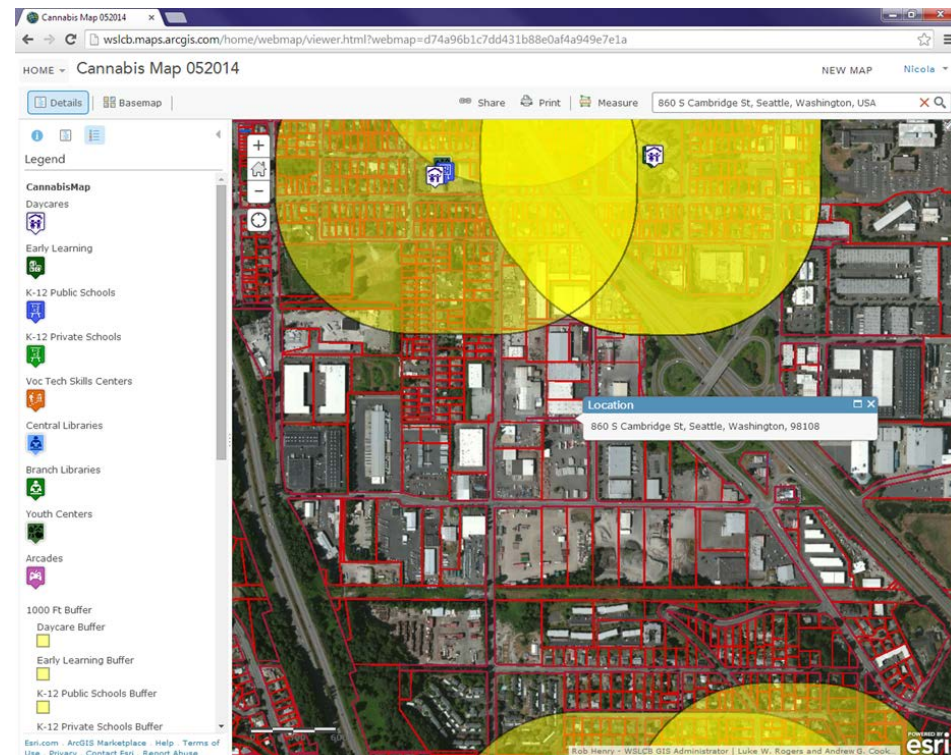
- WSLCB Customer Service received 6,756 applications from Business Licensing Service, with 2,567 having been assigned:
  - 2,282 Producer/Processor applications
  - 285 Retail applications
  
- Once assigned to Marijuana Licensing Investigator:
  - The investigator will be the point of contact throughout the licensing process
  - The investigator will contact all applicants within 14 days of assignment of application to schedule a telephone interview
  - Pre-interview work is completed prior to the interview





# Geographic Information System (GIS)

- GIS is an interactive mapping program that allows the licensing investigator to view the applicant's proposed location in proximity to any restricted entities, as outlined by the WSLCB rules
- Other state, county and mapping sites are used to verify data
- Further measuring was also done on-site by Enforcement Officers, when necessary





# Telephone Interview

- Completed with a principal member of the applicant
- During the interview questions will be asked pertaining to:
  - Parties of interest
  - The license type for which the applicant has applied and their intent
  - A description of the proposed location
  - Whether they own, are leasing, or hope to lease the location
  - Estimated total cost to open
  - Source of funds/financier information





## DocuSign

DocuSign is a secure way for applicants to complete, sign, and submit required forms online.

Washington State  
Liquor Control Board

100%

Trade Name \_\_\_\_\_

### Authorized Representative

This form must be completed if you would like to permit Washington State Liquor Control Board (WSLCB) to discuss you license application with persons who are not members of your organization. This form is not needed for WSLCB to discuss your applications with other members of your organization.

**Marijuana License Applicant:**

Mathias Eichler

Applicant Street Address

3000 Pacific Ave

Street/Route/PO Box City State Zip Code + 4

Phone No. Fax No.

Email

**Authorized Firm/Representative:**

Name (person/entity authorized to represent applicant)

Street/Route/PO Box City State Zip Code + 4

Phone No. Fax No.

Email

Next



# Request for Required Documents

This letter requests an array of necessary forms and documents needed for approval of the applicants license. Examples of what we request are:

- Operating Plans
- Floor plan
- Entity structure forms
- Personal criminal history statements
- Right to the real property
- Financials



# Financial Investigation

Financial investigations will be conducted for:

- All true parties of interest
- Financiers
- Any persons who exercise control in the business

Financial investigations are necessary to verify all sources of funds needed to start a business:

- No minimum or maximum amount required
- New businesses are different than established businesses



# Washington State Liquor Control Board

## Financial Statement - example

### Financial Statement

**Note:** One financial statement form must be completed for **each** organization and individual required to have a background check performed as part of this license application. If more space is needed for any section below, attach additional sheets in the same format.

<b>This Financial Statement is for a</b>	<b>BUSINESS ENTITY</b>	<b>INDIVIDUAL</b>
--	------------------------	-------------------

I AM A:	SOLE PROPRIETOR	PARTNER	LLC MEMBER	CORPORATE OFFICER	Title:
	SPOUSE	FINANCIER	LLC MANAGER	STOCKHOLDER	OTHER:
Last Name	First Name			Middle	

Business Entity is a (Corporation, LLC, Etc.):
Name of business entity

Contact Information					
Home mailing address	Street or route	City	County	State or country	Zip code
Day/cell phone	Evening phone		Fax number		

<b>A</b> Assets (at lower of cost or market value)	Amount	<b>B</b> Liabilities (over \$500)	Amount
Bank checking accounts (list in <b>E</b> )		Notes payable (list in <b>N</b> )	
Bank savings accounts (list in <b>F</b> )		Taxes payable (list in <b>N</b> )	
Life insurance		Accounts and bills payable (list in <b>O</b> )	
Cash on hand		Credit cards/consumer debts/student loans (auto, etc., list in <b>P</b> )	
Stocks, bonds, mutual funds, IRAs, etc. (list in <b>G</b> )		Leases and contracts owing (list in <b>Q</b> )	
Notes/accounts receivable (list in <b>H</b> )		Mortgages and liens on real estate (list in <b>Q</b> )	
Business/other investments (list in <b>I</b> )		Court ordered payments (list in <b>R</b> )	
Real estate owned (list in <b>J</b> )		<b>Total liabilities</b>	



# Final Inspection

An enforcement officer will visit the physical location:

- All information provided in submitted operating plan/floor plan will be verified (such as, but not limited to):
  - Alarm system
  - Video surveillance and recording device
  - Security areas
  - Quarantine area
  - Perimeter fencing
  - Point-of-Sale areas
- No plant material may be on the premises during time of final inspection



## Licensing Update

- 6,756 applications received
- 69 Producer/Processor licenses issued
- 10 licenses are pending payment
- 58 licenses awaiting final inspection
  - 20 are waiting for applicant to finish build out
- 285 Retail applications assigned
  - 25 are awaiting final inspection





# Questions?



# Enforcement or Recreational Marijuana Industry

June 24, 2014

Lisa Reinke, Captain Region 1  
Education and Enforcement Division

Jim Martinez, Commander



# Enforcement Activities

## What to expect:

- Public Safety focus on youth access
- Packaging and labels compliance
- Advertising compliance
- Only allowable products are sold
- Hidden ownership
- Records must be available for inspection upon request
- Test results availability
- Security compliance
- Product limits
- Complaint investigations
- Theft reporting compliance



# Enforcement Activities

- Initially: pre-license work
  - 1,000 foot measurements
  - Final inspection

## Retail Enforcement Operations:

- 334 retail stores across the entire state
- Retail store oversight for enforcement will reside with retail liquor enforcement
- Compliance Program
  - Compliance Checks
  - Education for licensee and employees
  - Surveillance activity for youth access
  - General premises checks to ensure regulatory compliance and detection of any criminal activity
- Consuming in public enforcement around liquor licensed businesses
- Assist non-retail as needed



# Enforcement Activities

- Non Retail focus:
  - Producer and Processor oversight
  - Unannounced premises checks
    - Spot checks for traceability compliance
    - Destruction of product oversight
  - Transportation oversight (including surveillance)
  - Bill of lading and manifest
  - Lieutenant will be liaison with local and state drug task forces
  - Primary liaison with traceability examiners
  - Tax referrals
  - Plant canopy compliance
  - Operating Plan compliance



**Thank you**