



I 502 Recreational Marijuana Financial Management Advisory Council Meeting

Presented by Randy Simmons, Deputy Director
Washington State Liquor Control Board

September 25, 2014



Today's Presentation

- Overview of I502
- Lessons Learned
- Legal Issues
- Tax Collections



Marijuana Legalization

Washington's Legalization at Glance

- Established by Initiative 502 on Nov. 6, 2012
- I-502 drafted by ACLU Drug Policy Director Alison Holcomb
- WSLCB charged with:
 - Drafting rules governing the new system
 - Licensing applicants
 - Enforcing the law at licensed locations
- 30-day window application period drew 7,000+ applications
 - No limit on producers and processors
 - Retail stores limited to 334 statewide
 - Retail lottery held in April to identify 334 “winners” out of 2,100 applicants



Timeline

December 2012	I-502 effective date
October 2013	Rules effective
March 2014	First producer licenses
April 2014	Retail lottery
July 7, 2014	First retail licenses issued
July 8, 2014	First retail stores open



Goals of Developing Washington's System

- Public safety is top priority
- Protecting children is focus
- Open and transparent system of rule-making and implementation
- Tightly regulated controlled marketplace
- Collect revenue for state of Washington



Lessons Learned



Lesson 1

There are many challenges of implementing a state law that is illegal federally.

- Schedule 1 controlled substance
- Banking
- Public agencies reluctant to cooperate
- Creating a controlled market, not open market
- Walking the line between federal expectations and state law requirements – DOJ memo



Lesson 2

Be realistic about the time it takes to set up a comprehensive system of growing, processing, and retailing recreational marijuana.

- Public forums and hearings
- Right system is more important than being fast
- Brookings Institute
 - “If Colorado is the sizzle. Washington is the steak.”

BROOKINGS

The Legalization of Marijuana

Report | August 25, 2014

Washington's Marijuana
Legalization Grows Knowledge, Not
Just Pot



Lesson 3

The impact on agency and state resources is heavy. This is not normal business.

- Original OFM Fiscal Impact Statement
 - Estimated 100 producers
- WSLCB Application Window Nov. 2013
 - 7,000+ marijuana applications w/in 30 days
 - 2,600 producers and 2,500 processors
 - By comparison....
 - 5,534 grocery stores that sell alcohol licensed
 - 4,929 total spirits/beer/wine restaurants licensed
- Media
 - Top 5 statewide AP story
 - 3,000+ media contacts per year



Lesson 4

It helps to know your license applicant base.

- Many marijuana license applicants are not used to operating any regulation.
- Basic technology, such as computer access or proficiency, can be challenging.
- Vocal



Lesson 5

Limit each applicant to a single license per license category to get the system started

- Creating a restricted marketplace to avert diversion
- WSLCB rules allowed up to 3 licenses per category
- WSLCB had to later limit applicants to single license and refund fee or hold application.



Lesson 6

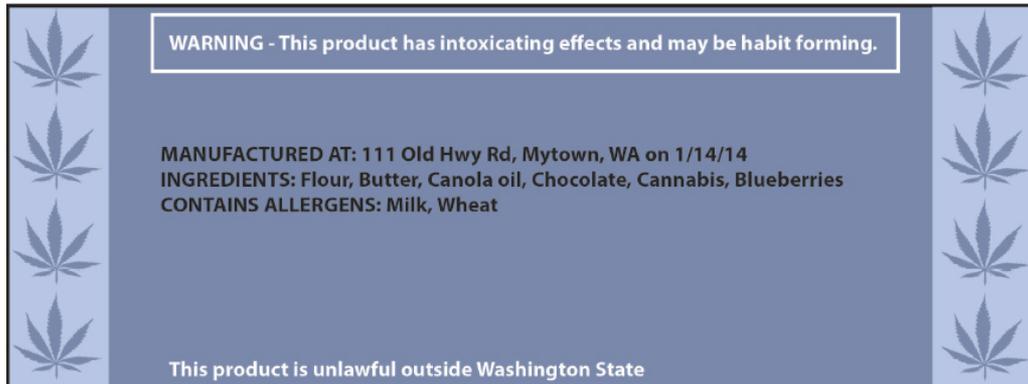
Lab testing is important to help further public and consumer safety

Sample Label

FRONT



BACK



- Business/trade name, UBI
- Lot number
- Batch number
- Manufacture date
- Best by date
- Recommended serving size
- Servings per unit
- Total milligrams of active THC
- Net weight
- All ingredients (incl. allergens)
- Warnings and cautions
- Identifier, “Product contains marijuana”
- All marijuana-infused products must be approved by the WSLCB



Lesson 7

Product and label approval on edible marijuana products protects kids and consumers.



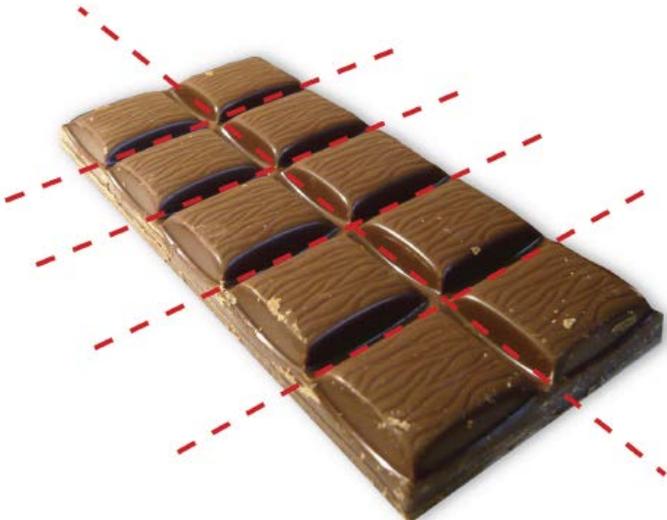
4 mil plastic minimum
Sealed packaging
No easy-open devices
Re-sealable: child resistant
Poison Prevention Act compliant





Lesson 8

Serving sizes and scoring promote consumer and public safety.

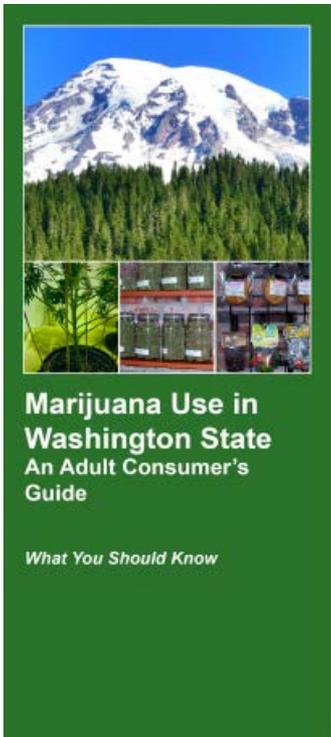


Serving = 10 mgs THC
Maximum of 10 servings per unit
Maximum 100mgs THC per unit
Servings must be physically indicated
All products must be tested



Lesson 9

Having a public education campaign in place is critical.



Consumer Education

- Consumer safety
 - Potency
 - Edibles
 - Driving/DUI
- Basic law facts
- Resource referral
- 40,000 copies, also available on-line



Parent Education

- Health risks and laws
- Nine languages
- 55,000 copies printed



Lesson 10

Expect the unexpected

- Circumstances outside your control will impact the best laid plans.
- Remain flexible
- Be prepared and have the courage to adjust



Legal Issues



Legalized Possession

- Limited possession 21 & over
 - 1 oz “useable” marijuana +
 - 1 lb marijuana-infused product in solid form +
 - 72 oz marijuana-infused product in liquid form +
 - 7 g marijuana concentrate
- Consuming in view of general public prohibited
- DUI *per se* limit: 5 ng active THC / mL blood





Commercial Licensing

- Liquor Control Board licenses and regulates
 - Producers
 - Processors
 - Retail stores (sell only marijuana, paraphernalia)
- Licenses limited to 3-month state residents
 - Applies to all “members” of business entities
 - Criminal background checks for members and financiers
- Taxes
 - 25% excise tax on sales at each level
 - Earmarked for public health research and education



Federal Response

Department of Justice Memorandum to United States Attorneys (Aug. 2013)

- Applies to all states.
- 8 priorities “will continue to guide the Department’s enforcement of the CSA against marijuana-related conduct.”
- “If state enforcement efforts are not sufficiently robust to protect against the harms, **the federal government may seek to challenge the regulatory structure itself** in addition to continuing to bring individual enforcement actions, including criminal prosecutions, focused on those harms.”



Supply and Demand

- 30-day application window
 - » Over 7,000 applications received
- » Producer/processor licenses
 - » Number of licenses not limited
 - » Square footage limited
 - » 109 producer/processors as of mid July
- » Retail licenses
 - » 334 stores allocated to cities/counties
 - » Lottery held to rank applicants for processing
 - » First 24 retail store licenses issued July 7



Minors

- 1000' buffer from schools
 - No marijuana business locations
 - No advertising by licensees “in any form or through any medium whatsoever” within 1000'
- No products/advertising “especially appealing to children”
 - *Preapproval* for all edible products
 - Child-resistant packaging



Public Health

- Quality assurance testing
 - WSLCB accredited 3rd party testing labs
- Food safety
 - WSLCB rules for hazardous foods that may not be infused
- Edibles
 - Limited to 10 mg THC serving & 10 servings/product
 - Scoring and labeling to indicate servings



Local Jurisdictions

- Some cities/counties banned I-502 businesses
- Local authority
 - I-502 does not preempt local jurisdictions from banning marijuana businesses, per formal AG Opinion
 - I-502 does not give WSLCB authority to deny licenses based on local law
 - Lawsuits have been filed by licensees against cities with bans



Banking Challenges

- Deposits to banking system = money laundering
- Cash business = crime target
- USDOJ/FinCEN banking guidance (Feb. 2014)
 - Authorizes filing special SARs
 - Requires bank due diligence - customer complying WSLCB rules
 - Banks waiting for guidance from federal regulators



Medical Marijuana

- Unregulated
- Only sales tax (but illegal to sell)
- Possess 24X as much w/authorization
- No age limit
- Challenge for legislature

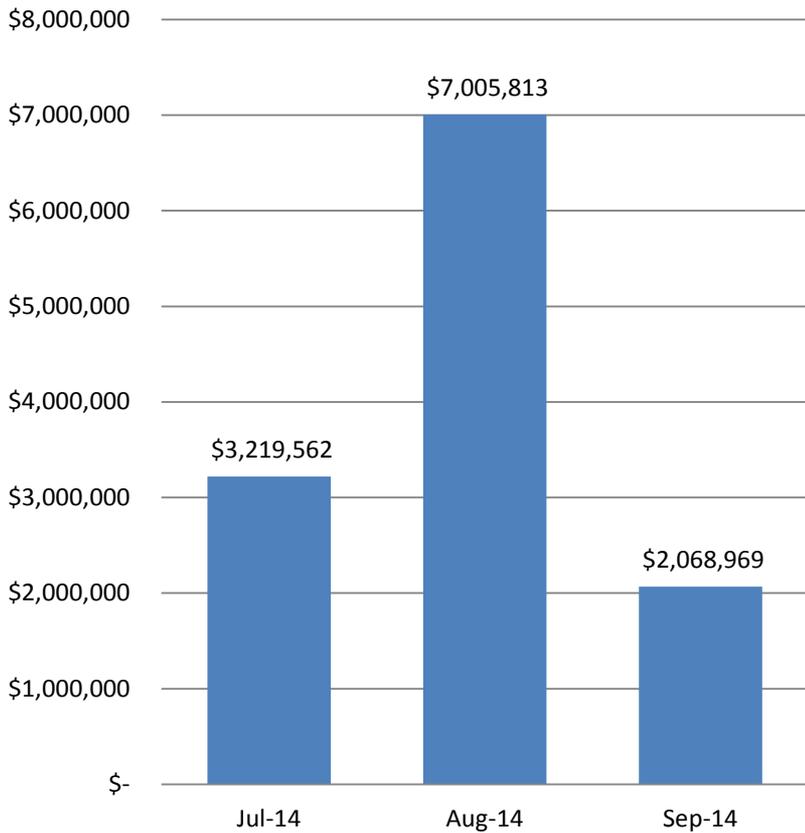


Tax Collection

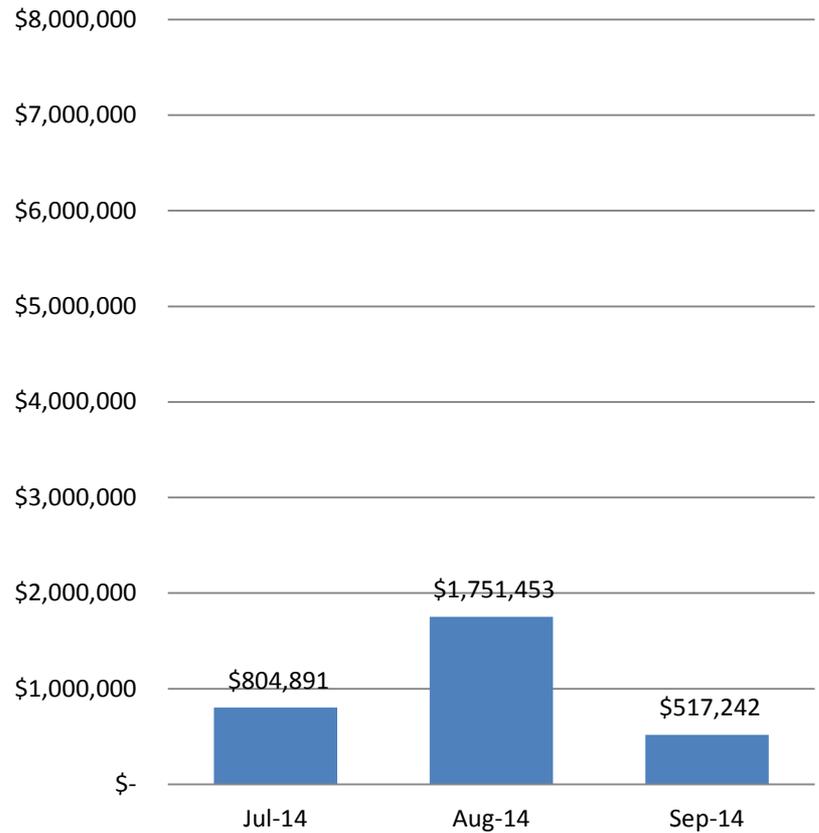


Total MJ Sales and Excise Tax Due by Month

Total Sales by Month



Total Excise Tax Due by Month





Questions?



Thank you