



# **Marijuana Legalization**

## Implementing Initiative 502 in Washington

Washington State Liquor and Cannabis Board (WSLCB)

May 2016



# Overview

## Highlights

- Agency objective for implementing I-502
- Licenses and licensing requirements
- Consumer safety elements
- Sales activity
- What We Know
- What We don't Know
- Brookings Institute findings
- Staying connected



# I-502 Key Elements

**1 of 2 of the world's pioneering systems 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

- Taxation

- Imposes excise tax rate of 37 percent on final marijuana sales

- Initial excise tax forecast projections

- FY 2015                    \$36.3 million
- FYI 2016                   \$80.0 million
- FY 2017                   \$119.8 million
- FY 2018                   \$160.2 million
- FYI 2019                   \$193.5 million

- 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

- Create a tightly controlled and regulated marijuana market

## Agency Role and Responsibilities:

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



# Federal Enforcement Guidelines

In addition to Washington's laws and rules, the Department of Justice issued eight enforcement guidelines for marijuana businesses. These guidelines are separate from Washington's and are enforced at the discretion of the US Department of Justice.

## Eight Guidelines

1. Preventing distribution to minors.
2. Preventing the revenue from going to criminal enterprises, gangs and cartels.
3. Preventing the diversion of marijuana from states where it is legal to other states.
4. Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity.
5. Preventing violence and the use of firearms in the cultivation and distribution of marijuana.
6. Preventing drugged driving and other adverse public health consequences associated with marijuana use.
7. Preventing the growing of marijuana on public lands and the environmental dangers posed by marijuana production on public lands.
8. Preventing marijuana possession or use on federal property.



# Marijuana Consultant

## BOTEC

- Contract with BOTEC Analysis Corporation to provide technical expertise
  - Project Leader is Dr. Mark Kleiman, CEO BOTEC, Ph.D. Public Policy, Harvard Kennedy School
  - Dr. Kleiman teaches public policy at UCLA.
  - 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*.

## BOTEC Team Leads

1. Product and Industry Knowledge  
*Matthew Cohen, Founder and CEO, Trichome Intelligence*
2. Product Quality Standards and Testing  
*David Lampach, President, Steep Hill Lab.*
3. Product Usage and Consumption Validation  
*Dr. Beau Kilmer, Ph.D., Senior Researcher, RAND Corp.*

## Comparing Notes with Colorado

- Ongoing dialog with Colorado and other states



# Licensing Requirements

## Licensing Requirements

- Criminal history investigation
  - All parties, including spouses
  - FBI background checks
- Financial background investigation
  - Identifies source of funds
- Six-month residency requirement
  - Entity must be formed in Washington State
  - Demonstrate at time of application
- Property must be more than 1,000' from: schools, child care centers, transit centers, game arcades, libraries, playgrounds, public parks.

## Traceability System

- A robust and comprehensive software system that traces product from start to sale. Licensees must report significant milestones and changes to the LCB's traceability system which allows the LCB to monitor and track any plant or product at any time.





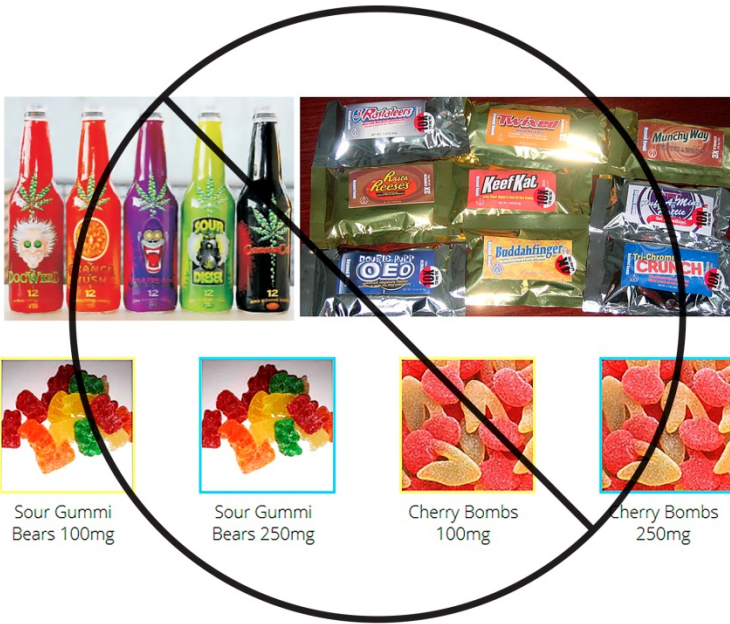
# Consumer Safety

## Strict Packaging and Labeling Requirements

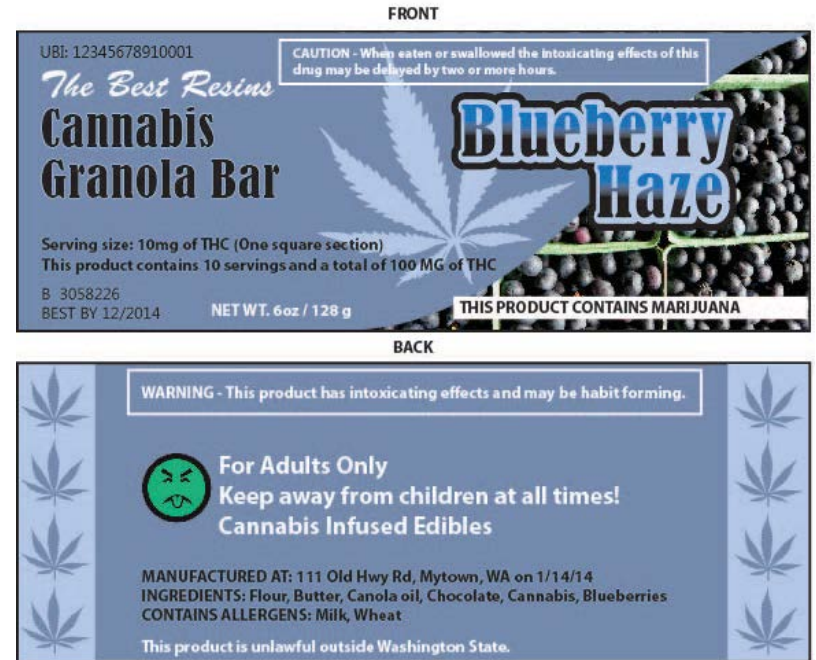
- Limited servings and concentration per package
  - Servings are individually wrapped
  - Homogenized to ensure uniform THC concentration
- Warning labels
- Net weight
- Usage warnings (specific warning for ingestible foods and/or liquids about effect delays)
- Upon request
  - Third party lab that tested lot and results
  - All pesticides, herbicides, fungicides found in product



## Consumer Safety



Unregulated Medical Products



Sample Label Mock Up



# Consumer Safety

## Lab Tested and Approved

- All lots 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



# Licenses

Issued as of May 11, 2016...

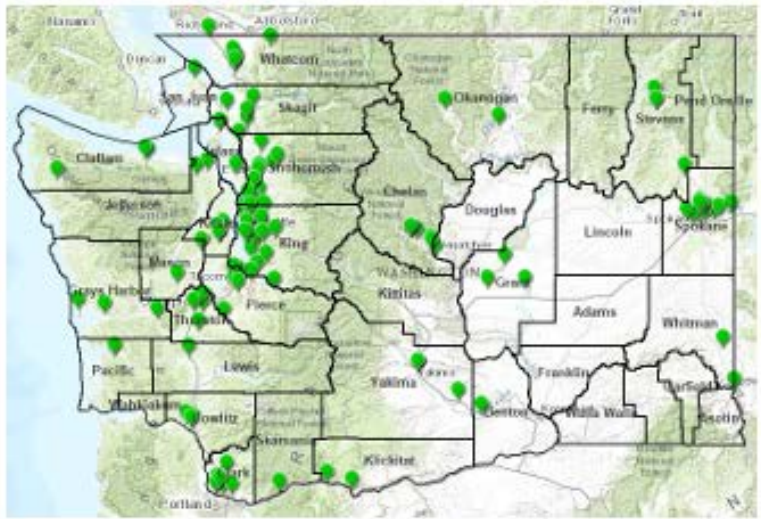
- **Producer/Processor – 935 total licenses**
  - 697 Producer/Processor
  - 137 Producer only
  - 101 Processor only
- **Retail – 350 licenses**
  - 250 retail outlets have reported sales



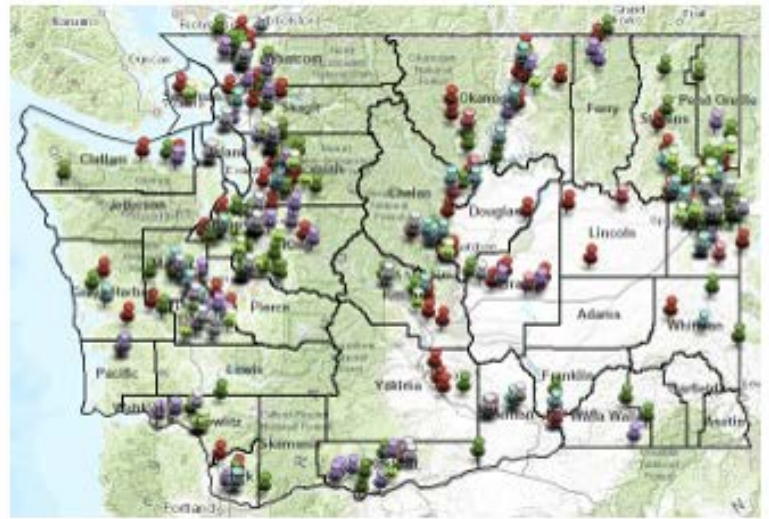
## Licensed Locations

Producer licenses issued	Producer/Processor licenses issued	Processor licenses issued	Retail licenses issued
137	697	101	350
Pending build out / applicant place on hold	Producer/Processor pending inspection	Retailer pending inspection	Retailers reporting sales
198	18	57	250 out of 343

### Locations



[View larger map](#)  
Retail locations



[View larger map](#)  
Producer/Processor locations



# Sales/Tax Activity

## Sales Activity

- Total Sales to Date (since July 8, 2014) \$1,052,800.0 (billion)
  - Total Sales FY 2015: \$259.7 million
  - Total Sales FY 2016: \$793.1 million
- Average Daily Sales
  - \$2.9 million average daily sales

## Excise Tax Revenue\*

- Total Tax to Date (since July 8, 2014): \$ 216.7 million
  - Total Excise Tax FY 2015: \$64.9 million
  - Total Excise Tax FY 2016: \$151.8 million

\*In addition, DOR collects Retail Sales and Business and Occupation taxes



# Current Revenue Projections

## Revenue Projections\* (last forecast Feb. 2016)

- FY 2016 \$164.0 million
- FY 2017 \$268.7 million
- FY 2018 \$329.5 million
- FY 2019 \$361.8 million

\*includes excise taxes and fees



# Funding Disbursements

Estimated Net to Distribute			\$155,882,285	\$260,209,170
Agency	For	I-502*	FY 16	FY 17
Dept. of Social and Health Svcs.	Prevention and reduction of substance abuse	15 percent	\$12,814,000 (8.2 percent)	\$27,786,000 (10.7 percent)
Dept. of Health	Marijuana education and public health program	10 percent	\$7,500,000 (4.8 percent)	\$7,500,000 (2.9 percent)
University of Washington	Research on short- and long-term effects	.6 percent	\$207,000 (.13 percent)	\$207,000 (.08 percent)
Washington State University	Research on short- and long-term effects	.4 percent	\$138,000 (.09 percent)	\$138,000 (.05 percent)
	Basic Health Trust Fund Account	50 percent	\$77,941,000 (50 percent)	\$130,105,000 (50 percent)
WA Health Care Authority	Contracts with community health centers	5 percent	\$5,351,000 (3.4 percent)	\$12,520,000 (4.8 percent)
Supt. of Public Instruction	Drop-out prevention	.3 percent	\$251,000 (.16 percent)	\$511,000 (.2 percent)
General Fund		18.7 percent	\$51,680,285 (33 percent)	\$81,442,170 (31 percent)

\*Modified by Legislature in 2015, 2E2SSB 2136





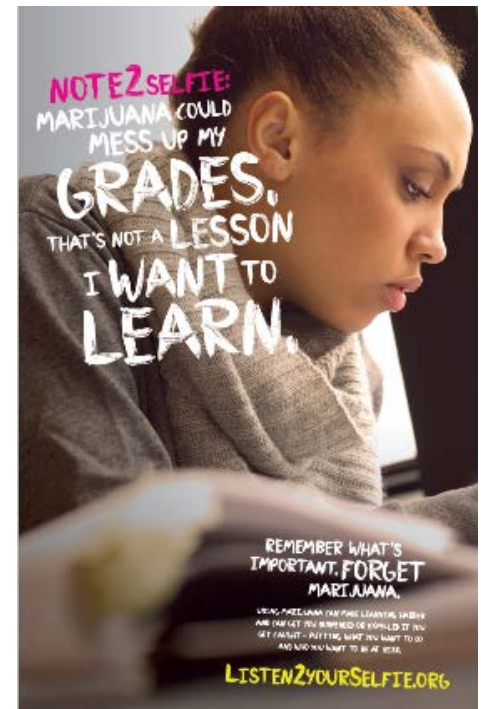
# Examples of Funded Activities

## DSHS – Substance abuse prevention and treatment

- Increase in youth treatment services
- Increased support for and expansion of community- and school-based services
- Grants for community-based services for prevention
- Training in Life Skills and other prevention and treatment programs
- Tribal Prevention and Treatment grants

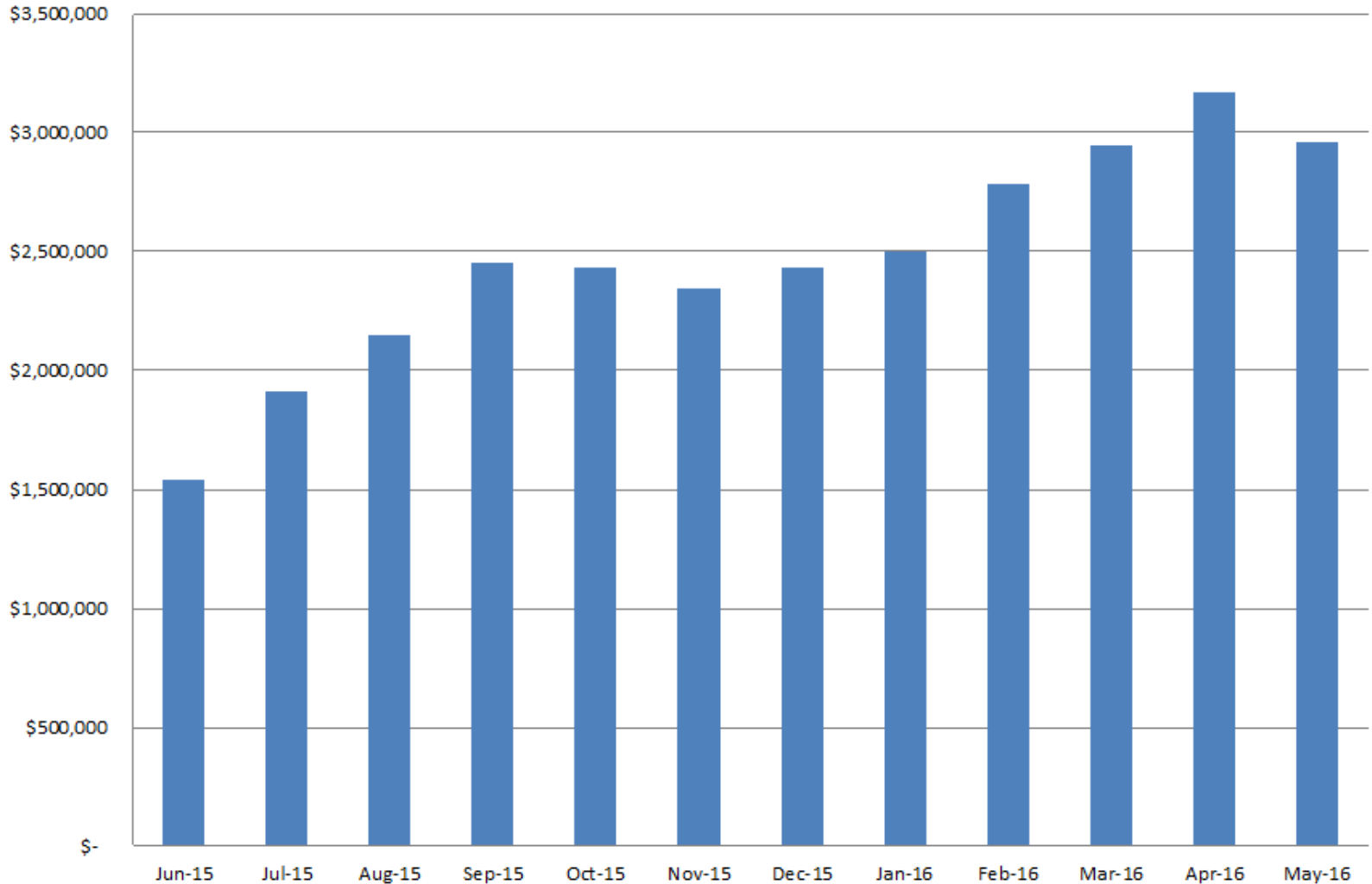
## DOH

- Media-based educational campaigns
  - Parents and other adult influencers
  - Youth
- Marijuana and Tobacco community grants
  - General population
  - Priority populations (African American, Latino/Hispanic, Asian/Pacific Islander, American Indian/Alaska Native, and LGBTQT)
- Marijuana Hotline
- Tobacco cessation services



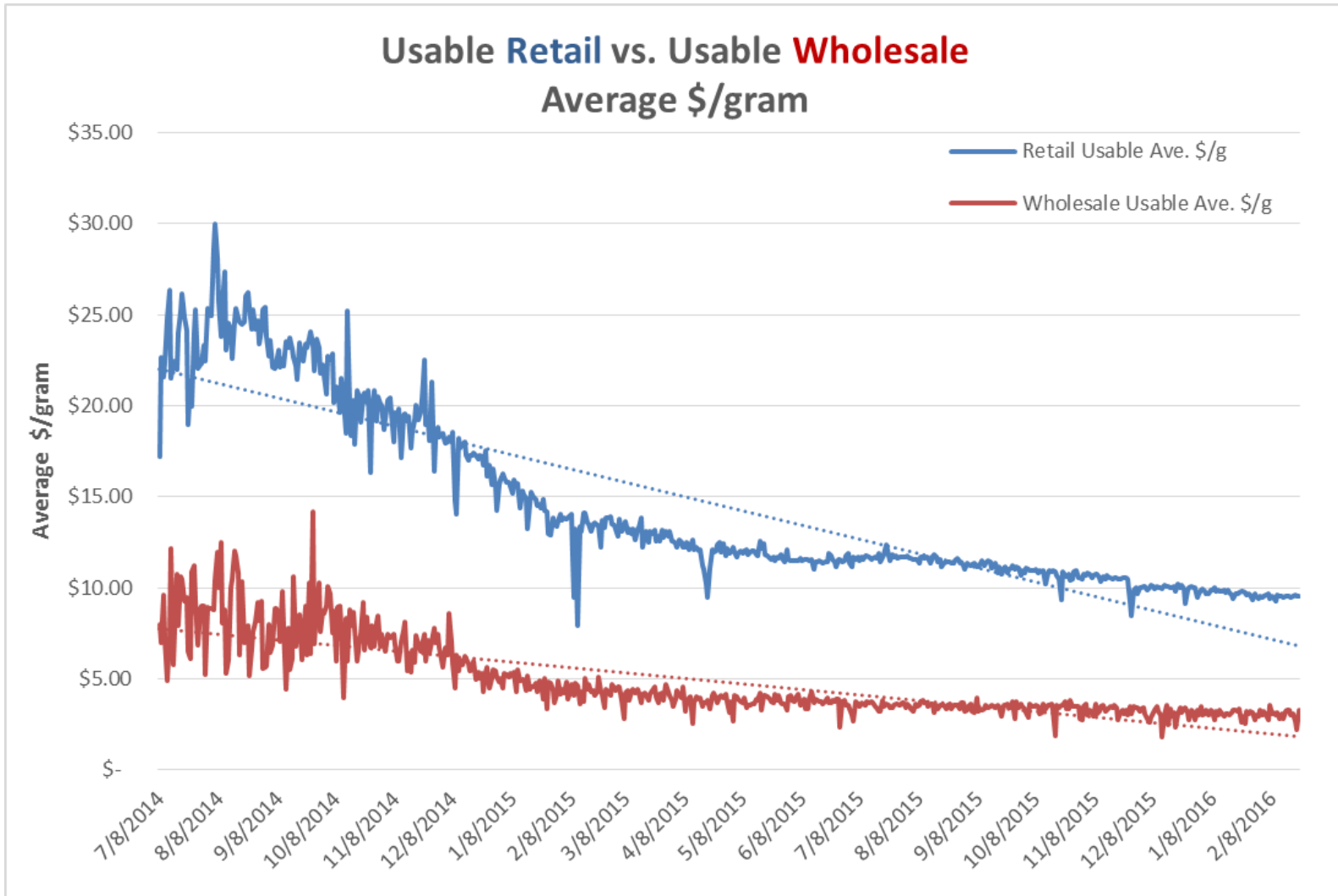


# Average Daily Sales Growth





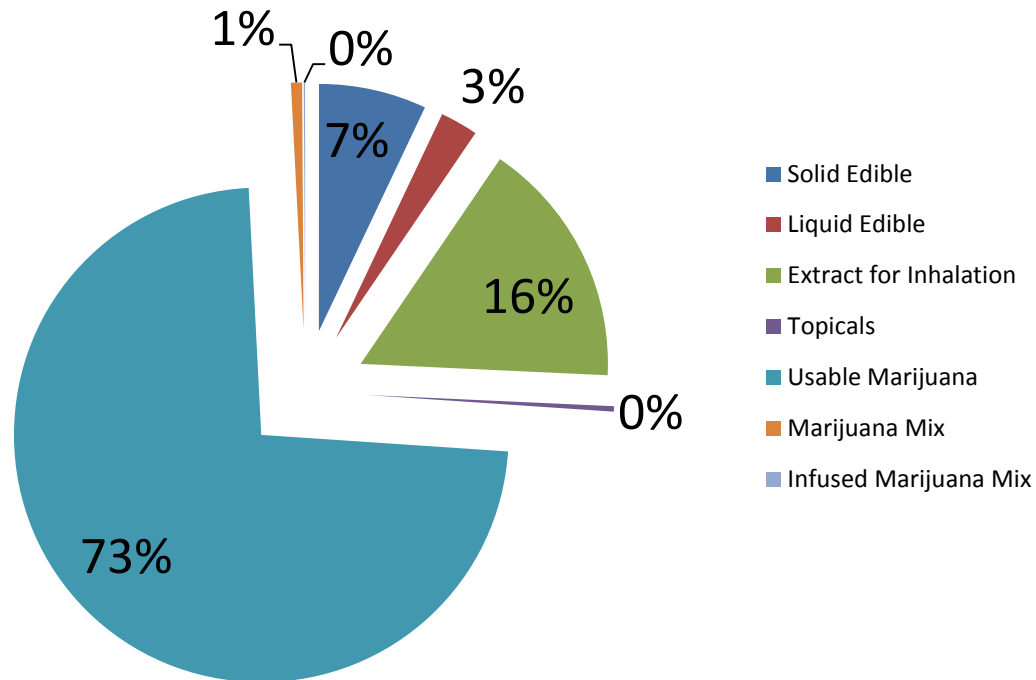
## Average Price per Gram





# Sales by Product Type

Fiscal 2016





# What We Know

## Conflicts with Federal Law

- Doesn't change federal law
- Schedule 1 Controlled Substance
- Research and development is suppressed

## Bans and Moratoria

- Court ruled that because I-502 was silent on bans/moratoria that cities/counties can ban marijuana businesses

## Public Health

- EPA and federally regulated pesticides

## Banking

- Dept. of the Treasury allows banks to do business with marijuana licensees
  - Approximately 25 percent of tax paid in cash



# What We Need to Know

- **Benefit – Cost Impact of Legalized Marijuana**
  - Benefit-cost analysis performed by Washington State Institute for Public Policy
  - Broad impact of policy change in Washington State
  - Reports due: 2015, 2017, 2022, 2032



# Brookings Institute Study

**B** | Center for  
Effective Public Management  
at BROOKINGS

August 2014

Washington's Marijuana Legalization Grows Knowledge, Not Just Pot:  
A Report on the State's Strategy to Assess Reform

Philip Wallach

## INTRODUCTION AND SUMMARY<sup>1</sup>



Philip Wallach

**O**n November 6, 2012, voters in Washington and Colorado made the momentous and almost entirely novel choice to legalize and regulate recreational marijuana. While many places around the world have tried out forms of marijuana decriminalization or legalized medical uses, none had ventured to make the production, distribution and recreational use of the drug legal, let alone erect a comprehensive, state-directed regulatory system to supervise the market. In spite of the lack of experience, and in spite of a clear conflict with federal drug law, solid



# Brookings Institute

## Impact on Youth

“A portion of the excise tax revenues from marijuana sales will fund research on the reform’s effects and how its social costs can be effectively mitigated.”

Excerpt from Aug. 2014 Study





# Brookings Institute

## Research on Prevention and Treatment

“Coordination of research efforts is taking place across multiple state agencies, including the Department of Social and Health Services, the Department of Health and the Liquor Control Board.”

Excerpt from Aug. 2014 Study



# Brookings Institute

## Cost-Benefit Analysis

“As the battle lines harden in the information wars between legalization’s champions and critics, the state’s knowledge-building efforts offer its officials the chance to transcend the breathless rhythms of the news cycle and set their sights on more consequential time horizons. Reformers across the country – in marijuana policy and beyond – would do well to learn from this second experiment (WA) as from the first (CO).”

Excerpt from Aug. 2014 Study



# Brookings Institute

## On Washington's Law and Implementation

“But while Colorado created the sizzle for pot legalization by acting quickly, Washington may end up providing the steak, merely by sticking to a meticulous and cautious approach that in the long run will make it easier for the public to track outcomes.”

Quote from McClatchy News Services on Brookings Study



## Staying Connected

- Visit the Marijuana 2016 webpage -- [lcb.wa.gov](http://lcb.wa.gov)
  - Interactive dashboard (maps, relevant data, updated weekly)
  - Factsheets
  - FAQs
  - Timelines
- Listserv with approximately 13,500 subscribers
- Public hearings on rules are posted on website and publicized on the listserv
- Media attention -- AP Top 5 story of 2012, 2013, 2014



**Thank you**