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## Commerce & Gaming Committee

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### HB 1127

**Brief Description:** Concerning the licensing of marijuana-related businesses involving a partnership, employee cooperative, association, nonprofit corporation, corporation, business entity, or nonprofit entity.

**Sponsors:** Representatives Condotta, Sawyer and Vick.

#### Brief Summary of Bill

- Prohibits the Liquor and Cannabis Board (LCB) from issuing a marijuana business license to a business or nonprofit entity unless it is lawfully registered with the Secretary of State and its interest holders meet specified residency requirements.
- Grants discretionary authority to the LCB to deny a commercial marijuana license to an entity if the entity has nonresident interest holders who are difficult to adequately investigate because of their nonresident status.

**Hearing Date:** 1/17/17

**Staff:** Thamas Osborn (786-7129).

#### Background:

##### State Licensing of Marijuana Producers, Processors, and Retailers.

The LCB issues three categories of marijuana-related business licenses: (1) the marijuana producer's license entitles the holder to produce marijuana for sale at wholesale to licensed marijuana processors or other producers; (2) the marijuana processor's license entitles the holder to process, package, and label marijuana for sale at wholesale to marijuana retailers and other processors; and (3) the marijuana retailer's license entitles the holder to sell marijuana products at retail prices in retail outlets.

The LCB is required to conduct a comprehensive, fair, and impartial evaluation of all applications for the various state-issued marijuana business licenses. However, pursuant to

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statute, the LCB is granted very broad, discretionary authority to grant or deny a license application. The process of evaluating license applications includes the following:

- the experience and qualifications of the applicant;
- an extensive criminal background check;
- verification that the applicant has the requisite municipal business licenses; and
- an inspection of the premises to be licensed, including an inquiry into the construction and operation of the premises.

Pursuant to statute, the LCB cannot issue a marijuana business license to:

- a person under 21 years of age;
- a person doing business as a sole proprietor who has not lawfully resided in the state for at least six months prior to applying to receive a license;
- a partnership, employee cooperative, association, nonprofit corporation, or corporation unless formed under the laws of this state, and unless all members thereof are otherwise qualified to obtain a license; or
- a person whose place of business is conducted by a manager or agent, unless the manager or agent possesses the same qualifications required of the licensee.

#### State Legal Requirements for Doing Business in Washington.

In order to operate in Washington, a business entity must obtain a license from the Department of Revenue (DOR). However, as a general rule, the DOR will not issue a business license unless the business entity is lawfully registered with the Secretary of State. The entities that must register with the Secretary of State include domestic business entities, such as corporations, nonprofit corporations, limited liability companies, limited liability partnerships, and general cooperative associations, as well as all "foreign" business entities. A foreign business entity is any out-of-state business entity whose internal affairs are governed by the laws of a jurisdiction other than the State of Washington.

Under the Uniform Business Organizations Code (UBOC), enacted by the Legislature in 2015, in order to do business in this state a domestic business entity must obtain a "certificate of existence" from the Secretary of State. The UBOC requires foreign business entities to obtain a "certificate of registration" before conducting in-state business transactions.

#### **Summary of Bill:**

A business or nonprofit entity may obtain a state marijuana business license provided: (a) it is lawfully registered with the Secretary of State; (b) more than 50 percent of the interest in the entity is held by one or more interest holders who lawfully reside in the state; and (c) all interest holders who are not state residents are resident citizens of the United States.

The LCB is granted discretionary authority to deny a license to an entity if the entity has nonresident interest holders who are difficult to adequately investigate because of their nonresident status.

The bill makes technical corrections to statutory terminology in RCW 69.50.331 so as to make it consistent with the terminology defined in the UBOC. Specifically, the terms "partnership,

"employee cooperative", "association", "nonprofit corporation", and "corporation" are deleted and replaced by the general terms "business entity" or "nonprofit entity."

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.