

# HOUSE BILL REPORT

## HB 2609

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**As Reported by House Committee On:**  
Commerce & Gaming  
Appropriations

**Title:** An act relating to modernizing and clarifying in-state distilled spirits production licenses and fees.

**Brief Description:** Modernizing and clarifying in-state distilled spirits production licenses and fees.

**Sponsors:** Representatives Tarleton, Young, Vick, Caldier and Sullivan.

**Brief History:**

**Committee Activity:**

Commerce & Gaming: 1/23/18, 2/1/18 [DPS];

Appropriations: 2/5/18, 2/6/18 [DPS(COG)].

**Brief Summary of Substitute Bill**

- Restructures the licensing scheme for distilleries and craft distilleries by eliminating those licenses and creating three new licenses for different business models: (1) distilled spirits producer; (2) distilled spirits brand owner; and (3) merchant bottler.
- Requires a license to be combined with a separate operational premises license for each facility (\$100 per year).
- Establishes annual licensing fees for the three new licenses, ranging from \$300 to \$5,000 depending on the license type and annual production.
- Establishes a 25 cent per liter excise fee on merchant bottlers and distilled spirits brand owner in connection with the sale and transfer of finished bottled or packaged spirits.
- Establishes an exemption from the 17 percent spirits retail license issuance fee for distilled spirits producers producing spirits with at least 70 percent of the raw materials used in production grown in Washington.
- Establishes a credit of up to 75 percent against the 17 percent spirits retail license issuance fee for distilled spirits producers producing spirits with less than 70 percent of the raw materials used in production grown in Washington.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

- Authorizes distilled spirits producers to operate up to two off-site tasting rooms, for on-premises and off-premises spirits sales, under a separate license for each tasting room.
- Creates an endorsement to the distilled spirits producer license to authorize the sampling and sale of bottled spirits for off-premises consumption at a licensed special occasion event.
- Limits the use of the word "craft" on product packaging, labeling, and brand and company names.
- Limits the amount of free spirits samples a distilled spirits producer may give a person per day (2 ounces total).
- Authorizes joint off-site tasting rooms for distilled spirits producers, breweries, and wineries, and authorizes distilled spirits producers, breweries, and wineries located in direct physical proximity to share a consumption area for customers, subject to restrictions.
- Authorizes the provision of branded promotional items to 501(c)(3) nonprofits.

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## HOUSE COMMITTEE ON COMMERCE & GAMING

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Sawyer, Chair; Kloba, Vice Chair; Vick, Assistant Ranking Minority Member; Blake, Kirby, Ryu and Young.

**Minority Report:** Do not pass. Signed by 1 member: Representative Jenkin.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Condotta, Ranking Minority Member.

**Staff:** Peter Clodfelter (786-7127).

### **Background:**

#### Licensing of Spirits Producers.

The Liquor and Cannabis Board (LCB) licenses people engaged in distilling (which is deemed an agricultural practice) under different license types, including the following:

- *Distiller License.* The license is for a person engaged in distilling, including blending, rectifying, and bottling. The license fee is \$2,000 per year, unless a person meets a different specific category.
- *Craft Distillery License.* The license is for distillers producing 150,000 gallons or less of spirits with at least half of the raw materials in the production grown in Washington. The license fee is \$100 per year.

The LCB also licenses commercial chemist stills, stills for educational purposes at universities, and fruit and wine distilleries. A person may alternatively manufacture spirits under a separate manufacturer's license.

#### License Privileges.

A distillery or craft distillery may sell spirits of its own production for consumption off the premises. A distillery may also contract distilled spirits for, and sell contract distilled spirits to, holders of distillers' or manufacturers' licenses, or for export. Additionally, distilleries and craft distilleries may sell or provide customers with free 0.5 ounce or less samples of spirits, or sell adulterated samples of spirits of their own production, water, and/or ice to persons on the premises of the distillery. A person is limited to sampling no more than a total of 2 ounces of spirits or alcohol on the distillery premises per day.

Any distillery or craft distillery may act as a retailer and distributor of spirits of its own production to retailers. Generally, a distillery or craft distillery acting as a distributor and retailer must comply with laws and rules applicable to distributors and retailers. A distillery or craft distillery may accept orders for spirits from customers in person at a licensed location, by mail, telephone, or the Internet (if Internet-sales privileges are requested), or by similar methods, and deliver spirits to an adult age 21 years or over subject to restrictions on hours of delivery, age-verification of the recipient, and packaging and labeling requirements.

A distillery or craft distillery may apply to the LCB for an endorsement to sell bottled spirits of its own production at a qualifying farmers' market (annual fee of \$75 per farmers' market). No sampling of spirits is authorized at a qualifying farmers' market. Before authorizing a qualifying farmers' market to allow an approved distillery or craft distillery to sell bottled spirits at retail at its farmers' market location, the LCB must notify appropriate local governments and certain nearby entities and public institutions. The LCB may withdraw any farmers' market authorization for any violation of liquor laws or rules.

A distillery or craft distillery may apply to the LCB for up to 12 special permits per year, for events not open to the general public, where tasting and selling spirits of the distiller's own production is authorized. The permit fee is \$10 per event.

#### Tied House Laws and Exceptions.

Business practices and financial interests of liquor industry businesses are restricted under the so-called tied house laws. The tied house laws generally prohibit an industry member from advancing and a retailer from receiving moneys or moneys' worth under an agreement, written or unwritten, or by means of any other business practice or arrangement. The tied house laws also generally prohibit one industry member from having a direct or indirect financial interest in another industry member or retailer, except for specific exceptions. The term "industry member" is defined as a licensed manufacturer, producer, supplier, importer, wholesaler, distributor, authorized representative, certificate of approval holder, warehouse, and any affiliates, subsidiaries, officers, directors, partners, agents, employees, and representatives of any industry member.

An exception to the tied house laws authorizes a distiller to hold a spirits, beer, and wine restaurant license for the purpose of selling liquor at a spirits, beer, and wine restaurant premises on the property on which the primary manufacturing facility of the distiller is

located or on contiguous property owned or leased by the distiller. A similar exception exists for breweries and wineries.

However, distillers and craft distilleries do not have the same exception to the tied house laws to perform personal services as is provided for the beer and wine industries. In-state and out-of-state wineries and breweries may provide certain personal services like in-store pouring and tasting events, bottle signing events, and other informational or educational activities at the premises of certain retailers (e.g., grocery stores or beer and/or wine specialty shops) subject to restrictions.

Another exception to the tied house laws authorizes industry members to provide retailers branded promotional items that are of nominal value, singly or in the aggregate. Promotional items must be used exclusively by the retailer or its employees and may not be passed along to customers or be targeted to or appeal principally to youth. Also, domestic wineries and microbreweries may provide branded promotional items that are of nominal value, singly or in the aggregate, to a nonprofit charitable corporation or association exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, for use consistent with the purpose(s) entitling the nonprofit to the exemption.

#### Spirits Retail License Issuance Fee.

Initiative 1183 (2011) established a spirits retail license issuance fee applicable to sales of spirits for off-premises consumption. Each spirits retail licensee must pay to the LCB, for deposit into the Liquor Revolving Fund, a license issuance fee equivalent to 17 percent of all spirits sales revenues under the license, exclusive of taxes collected by the licensee and of sales of items on which a license fee has otherwise been incurred. Craft distilleries are exempted from paying the 17 percent fee on retail sales of their spirits for off-premises consumption. However, the law is applied to require distilleries to pay the 17 percent fee on retail sales of their spirits for off-premises consumption.

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

#### Licensing of Spirits Producers and Related Entities.

A new licensing scheme is applied to businesses engaged in the production and marketing of spirits. The distillery and craft distillery licenses are replaced with the following licenses, which all must be combined with an operational premises license that applies to each facility and costs \$100 per year:

- *Distilled Spirits Producer License.* This license is for a person whose primary business is distilling, redistilling, rectifying, blending, bottling, and warehousing of distilled spirits. The license fee is as follows: \$300 per year if the licensee produces 10,000 proof gallons or less of spirits per year; \$1,000 per year if the licensee produces more than 10,000 proof gallons but not more than 100,000 proof gallons of spirits per year; and \$5,000 per year if the licensee produces more than 100,000 proof gallons of spirits per year. With certain exception, a distilled spirits producer must distill or redistill no less than one-half of the stock keeping units of product that are traditionally made through distillation or redistillation of its own production and that it sells in its in-state tasting rooms, to in-state retailers, or to in-state distributors under

its own brand. Only distilled spirits producers may use the word "craft" on a spirits product's label, package, or in the brand or company name.

- *Distilled Spirits Brand Owner License.* This license is for a person or entity whose primary business is the marketing of one or more brands of distilled spirits without being substantially involved in the distillation, redistillation, rectification, blending, flavoring, or merchant bottling of such spirits. The LCB must establish through rulemaking what constitutes being "substantially involved." The license fee is \$2,500 per year if the licensee sells 10,000 proof gallons or less of spirits in a year. The license fee is \$5,000 per year if the licensee sells more than 10,000 proof gallons in a year. The distilled spirits brand owner license includes the right to store product in a warehouse.
- *Merchant Bottler License.* This license is for a person or entity whose primary business is to purchase distilled spirits in bulk from licensed distilled spirits producers for rectifying, diluting, blending, or flavoring the spirits and then packing the finished products into consumer bottles or packages without substantial additional distillation or redistillation. Certain business models or practices are established as falling within the merchant bottler license category. The merchant bottler license fee is \$2,500 per year if the licensee bottles or packages 10,000 proof gallons or less of spirits in a year. The fee is \$5,000 per year if the licensee bottles and packages more than 10,000 proof gallons in a year. The merchant bottler license includes the right to store bulk and finished distilled spirits products in a warehouse. With limited exception, a prohibition is established on a merchant bottler using the word "distillery" or any derivate of the word in its brand or company name or on its distilled spirits products offered for sale in the state.

#### License Privileges.

*Distilled Spirits Producers.* Distilled spirits producers may sell their spirits products as follows:

- at retail for off-premises consumption;
- at retail for on-premises consumption (may be sold or provided free as 0.5 ounce samples, or sold as servings). If sold or provided as samples, spirits may be adulterated with nonalcoholic mixers, mixers with alcohol of the distiller's own production, water, and/or ice. If sold as servings, spirits may be adulterated with water, ice, other alcohol entitled to be served on the licensed premises, or nonalcoholic mixers;
- under contract for and to holders of a distilled spirits producer, merchant bottler, or distilled spirits brand owner license, or to other entities licensed or permitted to purchase or handle spirits;
- for export outside of the state; and
- at retail on the distilled spirit producers' premises.

In addition to selling their own products, a distilled spirits producer may sell any spirits product not of the distilled spirits producer's own production that is obtained from a source or distribution channel authorized under law, for on-premises or off-premises consumption at the distillery premises at an on-site tasting room or at an off-site tasting room. However, the other spirits brands may not exceed 25 percent of the distilled spirits producer's offerings of

its own brands for on-premises and off-premises consumption at its on-site and any off-site tasting rooms.

A tasting room license and a special occasion endorsement are established and available to distilled spirits producers. A tasting room license authorizes the holder to operate an off-site tasting room for the sampling, sale, and service of spirits of the distilled spirits producer's own production and spirits not of the distilled spirits producer's own production that are obtained from a source or distribution channel authorized under law, so long as the other spirits brands do not exceed 25 percent of the distilled spirits producer's offerings of its own brands for on-premises and off-premises consumption.

A distilled spirits producer is limited to operating no more than two off-site tasting rooms, which each require a separate license. The fee for the first license is \$100. The fee for the second license is \$1,000. There is no fee or separate license required for an on-site tasting room. A person receiving free samples of spirits at an on-site or off-site tasting room is limited to a maximum of 2 ounces of free samples of spirits per day.

A special occasion endorsement to the distilled spirits producer license is established to authorize a distilled spirits producer to serve samples and sell bottles at licensed special occasion events. The fee is \$100 per year. Any person engaged on behalf of the distilled spirits producer in the sampling of spirits at a special occasion licensed event must hold a class 12 alcohol server permit. A consumer may receive not more than 0.5 ounces of spirits per sample and not more than 2 ounces of spirits total per day.

Under the special occasion endorsement, a distilled spirits producer may take orders, either in writing or electronically, and accept payment for spirits of its own production under the following conditions:

- spirits produced by the distilled spirits producer may be served for on-premises consumption by the special occasion licensee;
- the distilled spirits producer must deliver spirits to the consumer on a date after the conclusion of the special occasion event;
- the distilled spirits producer must deliver spirits to the consumer at a location different from the location at which the special occasion event is held;
- the distilled spirits producer must comply with all requirements for direct sale of spirits to consumers;
- the spirits may not be sold for resale; and
- the distilled spirits producer is entitled to all proceeds from the sale and delivery of its spirits to a consumer after the conclusion of the special occasion event, but may enter into an agreement to share a portion of the proceeds of the sales with the special occasion licensee.

An endorsement similar to the existing distillery and craft distillery license endorsement for farmers' market sales is established for licensed distilled spirits producers. Spirits sampling is authorized, in addition to sales of spirits for off-premises consumption. The annual fee is \$75 per farmers' market. Any sampling of spirits at a qualifying farmers' market must be conducted in a separate controlled tasting area with physical barriers to ensure the area is accessible only to persons age 21 years or over. Samples are limited to a total of 2 ounces of spirits per person per day and each individual sample must contain no more than 0.5 ounces

of spirits. No more than a total of three wineries, microbreweries, or distilled spirits producers combined may offer samples at a qualifying farmers' market per day.

Any domestic brewery, microbrewery, domestic winery, distilled spirits producer, or any combination of these licensed entities with authorization for an off-site tasting room or retail establishment may jointly occupy and co-operate up to three off-site locations in which they sample, serve, and sell products of their own production. The licensees must maintain separate storage of products and separate financials.

Additionally, any combination of these licensees, whose property parcels or buildings are located in direct physical proximity to one another may share a standing or seated tasting area for patrons to use. Each licensee may sample, serve, and sell products of their own production for on-premises consumption in the jointly operated consumption area. Each licensee is responsible in the event of any enforcement issues, even if the enforcement issue is only due to one licensee's conduct.

The authority of existing distilleries and craft distilleries to accept orders for spirits from customers in person at a licensed location, by mail, telephone, the Internet, or by similar methods, is changed to apply only to licensed distilled spirits producers. References to craft distilleries and distilleries are changed to reference distilled spirits producers.

*Merchant Bottlers and Distilled Spirits Brand Owners.* Licensed distilled spirits brand owners and licensed merchant bottlers may sell their spirits products only as follows:

- through an entity licensed to distribute in the state;
- for export outside of the state, the product may be sold to a properly licensed entity; and
- if the product was produced under contract by a licensed in-state distilled spirits producer, then the product may be stored and sold through any approved distribution channel established by the distilled spirits producer for in-state wholesale or export transactions.

#### Tied House Laws and Exceptions.

References to distillers and craft distilleries in the exceptions to the tied house laws are changed to refer to distilled spirits producers. It is provided that nothing in the tied house laws restricting industry members from advancing and retailers from receiving moneys or moneys' worth prohibits a distilled spirits producer, distilled spirits brand owner, merchant bottler, or spirits certificate of approval holder from providing branded promotional items which are of nominal value, singly or in the aggregate, to a nonprofit corporation exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, for use consistent with the purpose(s) entitling the nonprofit to its exemption.

#### Spirits Retail License Issuance Fee and New Fees Related to Spirits Sales.

*Distilled spirits producers.* An exemption from and a credit against the 17 percent spirits retail license fee is established for retail sales of spirits of the distilled spirits own production to customers for off-premises consumption.

A distilled spirits producer producing spirits with at least 70 percent of the raw materials used in production grown in Washington is exempt from the fee for sales of spirits of its own

production. A distilled spirits producer producing spirits with less than 70 percent of the raw materials used in production grown in Washington is allowed a credit of up to 75 percent against the fee for sales of spirits of its own production.

For purposes of calculating qualifying raw material percentages, the totals must exclude or include the following raw materials:

- exclude agave juice, agave syrup, sugar cane, sugar cane juice, molasses from sugar cane, or any other derivative of agave or sugar cane used to ferment distillate base by a distilled spirits producer;
- include either the raw ingredients used to make the base spirits of the finished products or the fruit, spice, or herb flavorings blended or added to make finished products of a distilled spirits producer;
- exclude ingredients used from food or beverage waste or by-products used by a distilled spirits producer; and
- exclude water, creams, and sugar or syrup derivatives used for dilution, or blending, by a distilled spirits producer.

*Merchant Bottlers and Distilled Spirits Brand Owners.* Each merchant bottler licensee must pay a monthly production excise fee of 25 cents per liter of finished bottles or packages removed from bond tax determined or transferred in bond for its own sale. However, there is no production excise fee for distilled spirits bottled by a merchant bottler under contract for a distilled spirits producer licensed in the state. Similarly, each distilled spirits brand owner must pay a monthly bond removal excise fee of 25 cents per liter of finished bottles or packages removed from bond tax determined or transferred in bond.

### **Substitute Bill Compared to Original Bill:**

The substitute bill makes the following changes to the original bill:

- changes the new operational premises permit to an operational premises license;
- limits the use of the word "craft" to licensed distilled spirits producers;
- modifies the authorization for off-site tasting rooms;
- removes the authorization for a distilled spirits producer to sell beer and wine;
- specifies a distilled spirits producer may sell spirits both of its own production and spirits not of its own production, for on-premises and off-premises consumption, so long as the other spirits brands do not exceed 25 percent of the distilled spirits producer's offerings of its own brands;
- eliminates the limitation on the sources of gross revenue generated in an on-site or off-site tasting room;
- adds a limitation that a person may not receive more than a total of 2 ounces of free spirits samples per day at a distilled spirits producer's on-site or off-site tasting rooms;
- eliminates the endorsement that would authorize unlimited warehousing of spirits;
- modifies the endorsement authorizing a distilled spirits producer to provide spirits samples and sell bottled spirits to consumers for off-premises consumption at a licensed special occasion event to specify: (1) a customer may not receive more than 2 ounces of spirits total per day, and each sample must be 0.5 ounces or less; and (2) any spirits sold for off-premises consumption must be delivered to the consumer on a later date and at a different location than the special occasion event;



- eliminates the LCB's authority to establish additional endorsement privileges through rulemaking or by petition;
- establishes additional requirements for sampling spirits at farmers' markets;
- modifies the exemptions from the 17 percent spirits retail license fee that applies to retail sales of spirits to customers for off-premises consumption to specify the following: (1) a distilled spirits producer producing spirits with at least 70 percent of the raw materials used in production grown in Washington is exempt from the fee for sales of spirits of its own production; and (2) a distilled spirits producer producing spirits with less than 70 percent of the raw materials used in production grown in Washington is allowed a credit of up to 75 percent against the fee for sales of spirits of its own production;
- restores current law (other than references to the new license type) regarding a distilled spirits producer's authority to hold up to 12 special permit events not open to the general public for tasting and selling spirits of the distilled spirits producer's own production, and eliminates authority to host additional events and advertise the events under an endorsement;
- removes nonprofits recognized by the Secretary of State from the types of organizations to which spirits may be furnished without charge;
- removes the authorization for distilled spirits producers to provide personal services to retailers;
- modifies the authorization for providing branded promotional items to retailers and nonprofits, including removing the authority for branded promotional items to be passed along from retailers to patrons and limiting the nonprofits to which branded promotional items may be provided to 501(c)(3) nonprofits;
- changes terminology;
- eliminates the contingent expiration provision; and
- changes the effective date to January 1, 2019.

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**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 1, 2018.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2019.

**Staff Summary of Public Testimony:**

(In support) This is the result of stakeholders' work over several months. It attempts to unify the distillery industry and update laws that once fit, but now unreasonably hold back a fast-growing industry. In the last decade, the spirits manufacturing industry has grown substantially. This benefits communities throughout the state in terms of employment opportunities and the creation of new places for people to enjoy themselves responsibly with friends and family. It is important to strike a reasonable balance between access to alcohol and public health and safety. This bill attempts to do this while changing laws related to how spirits are produced, distributed, sold, and consumed. The LCB needs appropriate oversight in these areas, and stakeholders have engaged the LCB in an attempt to develop the legislation in a way that works for both the regulator and the industry. An important aspect

of the bill is combining the two existing licenses (distiller license and craft distillery license) into one new license, the distilled spirits producer license, which both the industry and the LCB supports.

Currently, it is a significant challenge for Washington distilleries to find retailers that will carry their Washington-produced products. More than half of the distilleries in the state have no retail sales outlet other than their manufacturing facility's one on-site tasting room. This was not the case when the state controlled the distribution and sale of spirits, and there were aisles in retail stores designated for Washington-produced spirits. The current lack of shelf space impacts distilleries in rural areas even more. Some people in the distillery industry were hurt by spirits privatization, and are still hurting. This bill will offer relief. Currently, the large spirits distributors account for 96 percent of the market in Washington and it can be difficult for local distilleries to find distributors and retailers to sell their products. In Oregon, 30 percent of all spirits sales are of Oregon-produced spirits. In Washington, only 5 percent of overall spirits sales are of Washington-produced spirits. Building a brand requires getting in front of consumers, and the bill gives distilleries this opportunity. Washington started out as a leader but is now falling far behind other states.

About 26 states do not limit the amount of spirits a person may be served at a distillery's manufacturing facility or tasting rooms like Washington does. Breweries and wineries in Washington do not have this limitation, and the laws against over-service of alcohol always still apply. About 13 other states allow off-site tasting rooms for distilleries. Oregon allows five off-site tasting rooms. In New York, breweries, wineries, and distilleries may all sell each other's products, including for off-premises consumption. A goal of the bill is to bring parity to the distillery industry relative to the beer and winery industries. Wineries currently have four off-site tasting rooms, distilleries only want to start with two. Currently, wineries and breweries may offer limited wine and beer samples at farmers' markets, distilleries are prohibited from offering any samples and just want parity. Because of the new opportunities the bill creates, the state will receive increased revenue.

(Opposed) None.

(Other) All distilleries, whether they are in-state or out-of-state distilleries, should be treated the same. Accordingly, stakeholders have significant concerns about the part of the bill that adds exemptions from the payment of the 17 percent spirits retail license issuance fee for only in-state producers but not out-of-state producers. This may violate the Commerce Clause of the United States Constitution.

The bill would create inconsistencies with existing liquor licensing laws and public safety protections related to on-premises alcohol service. Other on-premises retailers like restaurants are subject to requirements to serve complete meals to customers in addition to alcohol, among other requirements. It is concerning that this bill gives distilleries the same type of privilege as other on-premises retailers to serve alcohol to customers for on-premises consumption but does not include the same safeguards that apply to other types of retailers. Stakeholders recognize challenges that small spirits producers face in gaining access to the market, and parts of the bill aimed at addressing this issue make sense. However, there is concern about the further erosion of the three-tier system in that the bill grants spirits manufacturers additional retail sales privileges in different areas. There are also concerns

with giving the LCB authority to establish new privileges for spirits producers by creating license endorsements, as these are decisions for the Legislature.

It has come to light that some businesses operating under the current distillery or craft distillery licenses are not actually distilling spirits, but are just blending, rectifying, and bottling spirits. This bill addresses this issue by creating the new license type for merchant bottlers who fit this business model. The LCB agrees there are benefit to consolidating the current licenses and creating the new licensing scheme. Exceptions to the tied house laws begin being added in the 1970s. At that time, breweries and wineries raised concerns about their ability to effectively market their products, and so over the years breweries and wineries were granted the ability to self-distribute their own beer and wine, sell direct at retail to consumers, and to have off-site retail sales locations like restaurants with retail liquor licenses. The result was great economic growth, especially in Eastern Washington.

The laws for breweries and wineries share similarities, but they developed on their own independent tracks and are not identical. The development of the spirits industry in the state is different because, until Initiative 1183 (2011), the state controlled the distribution and sale of spirits. Because the industry has grown substantially since privatization, it makes sense to extend some of the privileges provided to breweries and wineries to distilleries. However, any changes must be made thoughtfully and responsibly. There are public safety concerns associated with increasing access to spirits. There is also a growing sense that the continual expansion of access to alcohol cannot continue indefinitely. Some aspects of the bill go beyond treating distilleries equally to breweries and wineries and give distilleries privileges the other industries lack. There are ways the bill could be amended to lower the fiscal note.

The LCB has some concerns about the possible size of the public events that distilleries could hold and advertise under the bill, so the LCB is engaging with stakeholders to ensure concerns are addressed. The LCB is confident it has the enforcement resources needed to ensure public safety is protected while implementing the changes in this bill as long as some of the issues are worked out.

**Persons Testifying:** (In support) Representative Tarleton, prime sponsor; Jason Parker, Copperworks Distillery; Justin Stiefel, Heritage; Kirby Kallas Lewis, Oola Distillery; Sandy Desner, Salish Sea Organic Liqueurs; Ryan Hembree, Ship Rock Distillers; and Mhairi Voelsgen, Brovo Spirits.

(Opposed) None.

(Other) Charlie Brown, DIAGEO; Diana Carlen, Total Wine and More; Scott Hazlegrove, Washington Beer and Wine Distributors; Rick Garza, Liquor and Cannabis Board; and Zach Lindahl, Washington Hospitality Association.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill by Committee on Commerce & Gaming be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Robinson,

Vice Chair; Caldier, Cody, Fitzgibbon, Graves, Hansen, Hudgins, Jinkins, Lytton, Manweller, Pettigrew, Pollet, Sawyer, Schmick, Senn, Stanford, Sullivan, Vick and Volz.

**Minority Report:** Do not pass. Signed by 10 members: Representatives Ormsby, Chair; Chandler, Ranking Minority Member; Bergquist, Buys, Condotta, Haler, Harris, Kagi, Taylor and Wilcox.

**Minority Report:** Without recommendation. Signed by 3 members: Representatives MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Tharinger.

**Staff:** Linda Merelle (786-7092).

**Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Commerce & Gaming:**

No new changes were recommended.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 2, 2018.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2019.

**Staff Summary of Public Testimony:**

(In support) The intent of the bill is to modernize the statute enacted 10 years ago by collapsing two license types into one. In addition, marketing privileges would be aligned for distillers, making them the same as those for beer and wine. The provisions of the bill are intended to be revenue neutral. Limiting the number of licenses and endorsements and the number of allowable events would keep the enforcement costs down.

(Opposed) There are many things to support in this bill. However, the biggest objection is to the combination of the distiller licenses. The craft license was good because it involved the use of Washington agriculture. Under this bill, craft distillers are combined with distillers that do not make their products from Washington agriculture. The distinction is similar to organic and non-organic farmers. Special privileges also come along with the craft license. The bill allows a 17 percent exemption on the license fee for in-state businesses, which is essentially a 17 percent tax on out-of-state businesses. The exemption should be allowed for all spirits products across the board.

(Other) The Liquor and Cannabis Board (LCB) is neither in favor of nor opposed to this bill. There have been a lot changes to the original version. To implement this bill, the LCB will need to change its system to accommodate new license types and endorsements.

**Persons Testifying:** (In support) Jim Hedrick, Washington Distillers Guild.

(Opposed) Charlie Brown, Diageo; and John Bourdon, Sandstone Distillery.

(Other) Chris Thompson, Liquor and Cannabis Board.

**Persons Signed In To Testify But Not Testifying:** None.