
Commerce & Gaming Committee

HB 1667

Brief Description: Concerning ownership of cannabis-related businesses.

Sponsors: Representative Wylie.

Brief Summary of Bill

- Eliminates the six-month residency requirement for a cannabis license.
- Requires natural persons who have an ownership interest of more than 10 percent of an entity that holds or is applying for a cannabis license to qualify for and be named on the license.
- Requires the natural person with the largest ownership interest to qualify for and be named on the cannabis license if no natural person owns more 10 percent of the entity.
- Requires disclosure to the Liquor and Cannabis Board (LCB) of the identification of any natural person who is not named on the cannabis license and who owns more than one percent of the entity.
- Authorizes the LCB to deny license issuance or renewal in certain circumstances if the LCB is unable to investigate a nonresident owner.
- Requires the LCB to establish an additional application fee for cannabis license applicants that are business or nonprofit entities, including applications to add an owner to an existing license.
- Changes terminology for business entities in cannabis licensing to match terminology in the Uniform Business Organizations Code.

Hearing Date: 2/1/22

Staff: Peter Clodfelter (786-7127)

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

Background:

Initiative 502 (2012) is administered to require all owners of cannabis businesses to lawfully reside in Washington for at least six months prior to applying for a cannabis license from the Liquor and Cannabis Board (LCB). Additionally, all owners of licensed cannabis businesses must qualify for and be named on the license. No cannabis license may be issued to a person under the age of 21, or to a partnership, employee cooperative, association, nonprofit corporation, or corporation unless formed under Washington law and unless all of the members are qualified to obtain a license. If a manager or agent conducts the business of a licensed cannabis establishment, the manager or agent must possess the same qualifications required of the licensee.

Currently, the LCB is not accepting new applications for cannabis producer, processor, or retailer licenses. Generally, to apply for a cannabis producer, processor, or retailer license there is a \$250 application fee, plus an annual license fee of \$1,381. For a cannabis research license or a cannabis transportation license, the application fee is \$250 and the annual license fee is \$1,300. When an application for a cannabis license is submitted to the LCB, the LCB may inspect the premises proposed to be licensed, and may inquire into all matters in connection with the construction and operation of the premises. The LCB conducts a financial review of applicants to determine the source of funds, conducts an administrative violation history search, and conducts a fingerprint-based criminal history records check through the Washington State Patrol and the Federal Bureau of Investigation.

The LCB has discretion in granting or denying the license or license renewal applied for by an applicant or licensee. Denial may be based on, without limitation, the existence of chronic illegal activity documented in objections submitted to the LCB from the relevant local government. Under the LCB's current rules, information from the applicant's background check may not preclude approval of license issuance or renewal, but will be considered in determining the applicant's eligibility for a license. The LCB conducts a threshold review for certain types of convictions, including when the background check shows there is one class A or B felony conviction in the last 10 years, two or more class C felony convictions in the last seven years, three or more misdemeanor or gross misdemeanor convictions in the last three years, or when the applicant is under active state or federal supervision. When a background check results in a determination to conduct a threshold review, in making the final licensing decision the LCB will consider criteria including the time since the conviction, the nature and specific circumstances of the offense, the relationship of the offense or incident to the nature of the work performed, and other information.

In the Uniform Business Organizations Code, the following terms have the following definitions:

- "Entity" means a business corporation, a nonprofit corporation, a limited liability partnership, a limited partnership, a limited liability company, or a general cooperative association.
- "Interest" means a share in a business corporation, a membership or share in a nonprofit corporation, a partnership interest in a limited liability partnership, a partnership interest in

a limited partnership, a limited liability company interest, or a share or membership in a general cooperative association.

- "Interest holder" means a shareholder of a business corporation, a member or shareholder of a nonprofit corporation, a partner of a limited liability partnership, a general or limited partner of a limited partnership, a member of a limited liability company, or a shareholder or member of a general cooperative association.

Summary of Bill:

The six-month residency requirement is eliminated from the qualifications for a cannabis license. Additionally, changes are made to when owners of cannabis businesses must qualify for and be named on the license. For any cannabis license issued by the Liquor and Cannabis Board (LCB), all natural persons holding an ownership interest of more than 10 percent of the business entity or nonprofit entity licensed or proposed to be licensed must qualify for and be named on the license. If no natural person owns more than 10 percent of the entity, the natural person with the largest ownership interest must qualify for and be named on the license. Otherwise, any natural person holding an ownership interest of 10 percent or less of the entity is not required to qualify for or be named on the license.

The identification of any natural person holding an ownership interest of 10 percent or less but more than one percent of the entity, who is not otherwise required to qualify for and be named on the license, must be disclosed to the LCB. The LCB may deny a license or license renewal to an entity if the LCB is unable to investigate a nonresident interest holder in the entity with greater ownership than 10 percent in accordance with the investigatory standards applicable to the investigation of a Washington resident.

The LCB must by rule establish an additional application fee for license applicants who are business entities or nonprofit entities. The fee must be in an amount sufficient to offset the additional investigative and administrative costs associated with the licensure of these types of entities and is in addition to any other application or licensing fee. The additional application fee applies to applications to add an owner to an existing license as well as to applications for new producer, processor, and retailer licenses. It is provided that nothing in the legislation requires the LCB to accept applications for new producer, processor, or retailer licenses.

Terminology from the Uniform Business Organizations Code related to business entity types and ownership interests is used to replace existing terminology in the cannabis licensing statute related to business entity types.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2022.