
**Consumer Protection & Business
Committee**

HB 1348

Brief Description: Concerning employee ownership of licensed cannabis businesses.

Sponsors: Representatives Hackney, Waters, Reeves, Low, Corry, Rule, Barkis, Hill and Nance.

Brief Summary of Bill

- Authorizes an employee stock ownership plan (ESOP) to own up to 100 percent of the stock in a licensed cannabis business or a business that is an owner of a licensed cannabis business.
- Exempts participating employees, the ESOP administrator, and the ESOP trustee from certain requirements that otherwise apply to owners of licensed cannabis businesses.
- Requires corporate officers and directors, or persons with an equivalent title, to qualify for and be named on the license, with respect to any interests held in a business owned by an ESOP.

Hearing Date: 2/4/25

Staff: Peter Clodfelter (786-7127).

Background:

Licensed Cannabis Businesses.

Washington Initiative 502, passed by voters in 2012, is administered to require all owners of licensed cannabis businesses to have lawfully resided in Washington for at least six months prior to applying for a cannabis license from the Liquor and Cannabis Board (LCB). Additionally, no

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cannabis license may be issued to a person under the age of 21 years, 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.

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 investigation to determine the source of funds, as well as a fingerprint-based criminal history record information check and a search of public safety administrative violation history records with the LCB.

Under the LCB's current rules, a cannabis license must be issued in the names of the true parties of interest, and for a privately held corporation, the true parties of interest include all corporate officers and directors, or persons with equivalent title, and all stockholders. The LCB is not currently accepting applications for new cannabis producer, processor, or retailer licenses, other than at certain times through the Cannabis Social Equity Program.

Employee Stock Ownership Plans.

An employee stock ownership plan (ESOP) is a qualified defined contribution plan under the Internal Revenue Code that is a stock bonus plan or a stock bonus and money purchase plan. An ESOP must be designed to invest primarily in qualifying employer securities and meet certain federal requirements. An ESOP trustee serves as the shareholder of record. An ESOP administrator typically performs day-to-day operating functions.

In 2023 the Washington Legislature enacted the Expanding Employee Ownership Act (Act), which created the Washington Employee Ownership Program (Program) at the Department of Commerce to support efforts of businesses considering a sale to an employee structure and established the Washington Employee Ownership Commission to oversee the Program. The Act provides a business and occupation tax credit for costs related to converting a qualifying business to an employee ownership structure.

Summary of Bill:

Employee Stock Ownership Plans Authorized for Licensed Cannabis Businesses.

An ESOP is authorized to own up to 100 percent of the stock in a licensed cannabis business or a business that is an owner of a licensed cannabis business. With respect to any interests held in a business owned by an ESOP, the corporate officers and directors, or persons with an equivalent title, of the business applying for or holding a cannabis license are considered the applicant or owner and must qualify for and be named on the cannabis license.

Unless a person is also a corporate officer or director, or holds an equivalent title, of the business applying for or holding a cannabis license, or the person holds an interest in the business outside of an ESOP, neither an employee of a cannabis business participating in an ESOP, nor the plan

administrator of the ESOP, nor the trustee of the ESOP are:

- considered an applicant or owner of a licensed cannabis business;
- considered a true party of interest with respect to the cannabis license under the LCB's rules;
- required to be qualified for or named on the cannabis license;
- subject to the residency requirement; or
- subject to criminal or administrative records checks, financial disclosure, or other vetting that otherwise applies to applicants or prospective owners of licensed cannabis businesses.

Appropriation: None.

Fiscal Note: Available.

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