

SENATE BILL REPORT

ESSB 5403

As Amended by House, April 11, 2025

Title: An act relating to limiting financial interest agreements for licensed cannabis retailers.

Brief Description: Limiting financial interest agreements for licensed cannabis retailers.

Sponsors: Senate Committee on Labor & Commerce (originally sponsored by Senators Saldaña, Krishnadasan and Nobles).

Brief History:

Committee Activity: Labor & Commerce: 1/27/25, 2/21/25 [DPS, DNP, w/oRec].

Floor Activity: Passed Senate: 3/12/25, 41-7.

Passed House: 4/11/25, 57-37.

Brief Summary of Engrossed First Substitute Bill

- Prohibits a retail licensee and all other persons or entities with a financial or other ownership interest from entering into any agreement under specified law that confers a financial interest across more than five retail cannabis licenses.

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 5403 be substituted therefor, and the substitute bill do pass.

Signed by Senators Saldaña, Chair; Conway, Vice Chair; King, Ranking Member; Alvarado, Ramos and Stanford.

Minority Report: Do not pass.

Signed by Senator Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator MacEwen.

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.

Staff: Marlon Llanes (786-7423)

Background: The Liquor and Cannabis Board (LCB) issues commercial cannabis licenses for producers, processors, and retailers. A licensed producer may produce cannabis for sale to cannabis processors, producers, or other specified parties. A licensed processor may process, package, and label cannabis concentrates, useable cannabis, and cannabis-infused products for sale to cannabis processors and retailers.

A licensed cannabis business may enter into an agreement with any person, business, or other entity for any of the following:

- goods or services that are registered as a trademark under federal law, under specified law, or under any other state or international trademark law;
- unregistered trademark, trade name, or trade dress; or
- trade secret, technology, or proprietary information used to manufacture a cannabis product or used to provide a service related to any cannabis business.

Summary of Engrossed First Substitute Bill: A retail licensee and all other persons or entities with a financial or other ownership interest are prohibited from entering into any agreement under specified law that confers a financial interest across more than five retail cannabis licenses.

Financial interest includes negotiating or coordinating purchases of cannabis products, any operational control over the business, sharing profits or revenue, sharing marketing and advertising costs, or sharing employment and hiring decisions.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on January 1, 2026.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Growers are struggling because sales prices and consumer participation are decreasing. This bill would increase tax revenue and reduce black market sales. Direct to consumer sales allow farms to educate consumers about cannabis. Cannabis businesses have been abiding by security regulations and can continue to do so for direct sales. Growers need the ability to generate independent revenue. There is a need for diversity in the marketplace.

CON: The bill is opening the door to vertical integration. This bill would fundamentally

change the cannabis market. There are better alternatives to help small growers. The bill only benefits some growers and puts pressure on small retailers. This bill would increase access to cannabis for youth and may have unintended consequences. The Legislature should consider funding a study as an alternative.

OTHER: Washington is the only state with legal cannabis that still prohibits direct sales. The current market is inequitable. Growers are forced to make decisions based on the bottom line, rather than focusing on sustainable practices, community relationships, or innovation. The bill's definitions are too vague. A social equity component should be included in the bill.

Persons Testifying: PRO: Senator Rebecca Saldaña, Prime Sponsor; Micah Sherman, Raven; Tamara Weinmann, 13300 SE 30th st unit 101; Benjamin Ogren, The People of this great state; Douglas Henderson, Painted Rooster; Rebeca Potasnik; Scott Mckinley, The Cantanna Festival; Joshua Sheets; Ann'ette Pedigo, Cedar Creek Cannabis ; Nichole Graf; Caitlein Ryan, THE CANNABIS ALLIANCE; Rian Takahashi; RYAN SEVIGNY; Brendon Weinmann, 30th Street Productions; Jeremy Careaga ; Anthony Covos-Golden.

CON: Megan Moore, WA State Public Health Association; TRENT MATSON, Washington Cannabis Licensees Association; Scott Waller, WASAVP - Washington Association for Substance misuse and Violence Prevention ; Brooke Davies, Washington CannaBusiness Association.

OTHER: Beau Whitney, Whitney Economics; Kelsey Taylor, Walden; Peter Manning, Black Excellence in Cannabis; Mike Asai, Black Excellence In Cannabis.

Persons Signed In To Testify But Not Testifying: No one.

EFFECT OF HOUSE AMENDMENT(S):

- Adds a type of agreement to the bill's prohibition on certain financial agreements, specifically management agreements entered under existing authorization for cannabis licensees to have their place of business conducted by a manager or agent.
- Specifies that the bill applies both retroactively and prospectively.
- Clarifies that the prohibition on certain agreements applies whether or not payment is exchanged.
- Modifies the definition of financial interest for purposes of the prohibition to: (1) include any assistance, coordination, or recommendation for the purchase of cannabis products whereupon pricing is coordinated or discounted, rather than negotiating or coordinating purchases of cannabis products; (2) add the common use of intellectual property assets; (3) add any operational support for typical day-to-day business operations; (4) include any sharing or coordination of marketing and advertising efforts or expenses, rather than sharing marketing and advertising costs; and (5) specify that the sharing of employment or hiring decisions includes the shared employment of individuals.