
Commerce & Gaming Committee

HB 2364

Brief Description: Concerning the licensing of marijuana-related businesses involving a partnership, employee cooperative, association, nonprofit corporation, corporation, or limited liability company.

Sponsors: Representatives Wylie, Fitzgibbon, S. Hunt, Moeller, Vick and Buys.

Brief Summary of Bill

- Authorizes the Liquor and Cannabis Board to issue a marijuana-related business license to a foreign business entity provided such entity is lawfully registered with the Secretary of State.
- Clarifies that the individual partners, members, or shareholders of domestic and foreign business entities are not required to be state residents in order for such business entities to be eligible for a marijuana-related business license.
- Adds "limited liability companies" to the types of business entities required to be lawfully registered with the Secretary of State in order to obtain a marijuana-related business license.

Hearing Date: 1/19/16

Staff: Thamas Osborn (786-7129).

Background:

Overview of Initiative 502.

Initiative 502 (I-502) was a ballot measure approved by Washington State voters in November 2012 that: (1) legalized the production, processing, possession, and personal use of marijuana and marijuana-derived products; (2) created a framework for a regulatory scheme to be further developed by the Liquor and Cannabis Board (LCB) through its rule-making authority; and (3) implemented a taxation system for commercial marijuana enterprises.

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.

Licensing of Marijuana Producers, Processors, and Retailers Under the Controlled Substances Act.

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 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 of the members thereof are qualified to obtain a license as provided in this section; 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 State, 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), 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:

The LCB is authorized to issue a marijuana business license to a foreign business entity provided such entity is lawfully registered with the Secretary of State.

The bill clarifies that the individual partners, members, or shareholders of domestic and foreign business entities are not required to be state residents in order for such entities to be eligible for a marijuana business license.

Limited liability companies are added to the types of business entities required to be properly registered with the Secretary of State in order to obtain a marijuana producer, processor, or retailers license.

Appropriation: None.

Fiscal Note: Available.

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