

# SENATE BILL REPORT

## HB 2000

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As Reported by Senate Committee On:  
Commerce & Labor, March 25, 2015  
Ways & Means, April 7, 2015

**Title:** An act relating to authorizing the governor to enter into agreements with federally recognized Indian tribes in the state of Washington concerning marijuana.

**Brief Description:** Authorizing the governor to enter into agreements with federally recognized Indian tribes in the state of Washington concerning marijuana.

**Sponsors:** Representatives Hurst, Condotta and Tarleton.

**Brief History:** Passed House: 3/05/15, 80-18.

**Committee Activity:** Commerce & Labor: 3/25/15 [DP-WM].  
Ways & Means: 4/06/15, 4/07/15 [DPA, w/oRec].

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### SENATE COMMITTEE ON COMMERCE & LABOR

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Braun, Vice Chair; Hasegawa, Ranking Minority Member; Conway, Keiser, King and Warnick.

**Staff:** Richard Rodger (786-7461)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators Hill, Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Billig, Brown, Conway, Fraser, Hasegawa, Hatfield, Hewitt, Kohl-Welles, O'Ban, Padden, Parlette, Rolfes, Schoesler and Warnick.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Braun, Vice Chair.

**Staff:** Dean Carlson (786-7305)

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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.*

**Background:** Tribal-State Compacts. Where authorized by statute, the Governor may enter into compacts and agreements with the Indian tribes of this state regarding matters of mutual interest and/or concern. Many such compacts have been implemented regarding gambling and various taxation issues, most notably those regarding cigarette taxes and gasoline taxes. In 2001 legislation was passed allowing the Governor to enter into contracts with the tribes concerning the sale of cigarettes. Such contracts must be for renewable terms of eight years or less. Cigarettes sold on Indian lands during the contracts term are subject to a tribal cigarette tax and are exempt from state cigarette and sales and use taxes.

Regulation of Marijuana Commerce under the State Controlled Substances Act. Initiative 502 (I-502) was a ballot measure approved by Washington voters in November 2012 that: (1) legalized the production, processing, possession, and personal use of marijuana; (2) created a framework for a regulatory scheme to be further developed by the Liquor Control Board (LCB) through its rulemaking authority; and (3) revised provisions in criminal statute to accommodate such legalization in accordance with the requirements of the initiative. The statutory provisions of I-502 are codified in the state Controlled Substances Act (CSA), chapter 69.50 RCW.

Under the CSA, LCB is authorized to issue three categories of commercial marijuana 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.

Federal Response to State Marijuana Legalization. In recent years, the United States Department of Justice (DOJ) has issued several policy statements regarding state regulation of legalized marijuana. In August 2013, the DOJ issued a memorandum (Cole Memorandum) in response to the legalization of marijuana in Washington and Colorado. This memorandum is widely interpreted to implicitly allow the states to proceed with legalization efforts, provided public health and safety are protected by strong and effective regulatory and enforcement systems. In an effort to establish criteria for the evaluation of the adequacy of state regulatory systems, the Cole Memorandum identifies eight enforcement priorities that the federal government will consider:

- preventing the distribution of marijuana to minors;
- preventing marijuana sales revenue from being directed to criminal enterprises;
- preventing marijuana from being diverted from states where it is legal to states in which it is illegal;
- preventing state-authorized marijuana activity from being used as a cover for trafficking other illegal drugs or other illegal activity;
- preventing violence and the use of firearms in the production and distribution of marijuana;
- preventing drugged driving and other marijuana-related public health consequences;
- preventing the growth of marijuana on public lands; and
- preventing marijuana possession or use on federal property.

However, the Cole Memorandum strongly affirms the continuing authority of the federal government to challenge state regulatory systems and to take enforcement actions where state enforcement efforts are inadequate.

Marijuana Commerce in Indian Country. In October 2014, another federal memorandum (Wilkinson Memorandum) was issued regarding the legalization of marijuana by Indian tribes. Its substantive provisions are almost identical to the Cole Memorandum, insofar as it implicitly authorizes the tribes to implement legalization policies subject to the same eight regulatory priorities and oversight role of the federal government. The Wilkinson Memorandum also acknowledges that the tribes are sovereign nations and thus directs the DOJ to consult with affected tribes on a government-to-government basis on matters relating to the regulation of legalized marijuana.

**Summary of Bill (Recommended Amendments):** The Governor is authorized to enter into agreements with federally recognized Indian tribes concerning marijuana. Such agreements may address any marijuana-related issue that involves both state and tribal interests or otherwise has an impact on tribal-state relations. Such agreements may include the following subject matter:

- criminal and civil law enforcement;
- regulatory issues related to the commercial production, processing, sale, and possession of marijuana and processed marijuana products;
- medical and pharmaceutical research involving marijuana;
- taxation; and
- dispute resolution, including the use of mediation or another nonjudicial process.

Any marijuana agreement relating to the production, processing, and sale of marijuana in Indian country, whether for recreational or medical purposes, must address the following issues:

- preservation of public health and safety;
- ensuring the security of production, processing, retail, and research facilities; and
- cross-border commerce in marijuana.

Any agreement must require a federally recognized Indian tribe to impose a tax that is at least the equivalent of the state taxes on marijuana.

The Governor may delegate the power to negotiate marijuana agreements to LCB. In conducting such negotiations, LCB must, when necessary, consult with the Governor and/or the Department of Revenue.

State sales, excise, and use taxes do not apply with respect to tribal commercial activities involving marijuana and which are covered by an agreement with the state.

State-licensed marijuana retailers are authorized to purchase and receive marijuana and processed marijuana products from a federally recognized Indian tribe as permitted by a tribal-state agreement.

State-licensed marijuana producers and processors are authorized to sell and distribute marijuana and processed marijuana products to a federally recognized Indian tribe as permitted by a tribal-state agreement.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments):** Any agreement must require a federally recognized Indian tribe to impose a tax that is at least the equivalent of the state taxes on marijuana.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on House Bill (Commerce & Labor):** PRO: The federal government recently issued the Wilkerson Memorandum that authorizes Indian tribes into the production and retail of marijuana. It is in the state's best interest to integrate the tribes using this collaborative approach and allow the tribes to work with the existing marketplace. Tribes do not need this legislation to move forward.

CON: This bill will allow tribal entities to dominate the marijuana field and will hurt our small businesses and economy. It allows for untaxed and unregulated marijuana and undercuts Initiative 502. It allows for decisions to be made behind closed doors.

**Persons Testifying (Commerce & Labor):** PRO: Representative Hurst, prime sponsor; James Paribello, LCB; Chris Masse, Miller Nash.

CON: Arthur West, National Freedom Alliance.

**Persons Signed in to Testify But Not Testifying:** No one.

**Staff Summary of Public Testimony on House Bill (Ways & Means):** PRO: The Wilkinson Memorandum allows tribes to enter the marijuana market. This is the first step to work with the tribes to ensure a safe, regulated market. This would be the first time the state has entered into agreements with the tribes prior to any litigation.

**Persons Testifying (Ways & Means):** PRO: Christine Masse, Miller Nash Graham and Dunn; James Paribello, LCB.

**Persons Signed in to Testify But Not Testifying:** No one.