

# SENATE BILL REPORT

## SB 5377

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As of February 7, 2023

**Title:** An act relating to cannabis license ownership.

**Brief Description:** Concerning cannabis license ownership.

**Sponsors:** Senators Rivers, Stanford, Mullet and MacEwen.

**Brief History:**

**Committee Activity:** Labor & Commerce: 2/09/23.

### Brief Summary of Bill

- Requires the Liquor and Cannabis Board (LCB) to suspend a cannabis producer's license if no activity has been recorded on the license after July 1, 2021, and for the license to be reissued to the licensee under certain conditions related to federal legalization of cannabis.
- Authorizes out-of-state ownership of licensed cannabis businesses.
- Modifies requirements regarding who must qualify for and be named on a cannabis license.
- Permits LCB to impose additional licensing fees to recover costs associated with investigating certain non-residents.

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### SENATE COMMITTEE ON LABOR & COMMERCE

**Staff:** Matt Shepard-Koningsor (786-7627)

**Background:** License Application. To apply for a cannabis producer, processor, or retailer license—collectively, cannabis license—there is a \$250 application fee, plus fees equivalent to \$1,381 for license issuance and annual renewal. When an application for a cannabis license is submitted, LCB may inspect the premises proposed to be licensed, and may

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inquire into all matters in connection with the construction and operation of the premises. LCB must conduct a financial investigation to determine the source of funding and a criminal history record information check.

License Suspension. LCB may, in its discretion and subject to applicable laws, suspend or cancel any cannabis license. LCB must notify all other licensees in the county where the licensee has its premises of the suspension or cancellation, and no other licensee or employee of another licensee may allow or cause any cannabis products to be delivered to or for any person at the premises of the subject licensee. In the case of license suspension, LCB must return the license to the licensee at the expiration or termination of the suspension period.

License Ownership. LCB may not issue a cannabis license to:

- a person under 21;
- a person doing business as a sole proprietor who has not lawfully resided in Washington for at least six months prior to applying for a license;
- a partnership, employee cooperative, association, nonprofit corporation, or corporation, unless the entity was formed under Washington laws and all members are qualified to obtain a license; or
- a person whose place of business is conducted by a manager or agent, unless the manager or agent possesses the same qualifications of the licensee.

Uniform Business Organizations Code. In the Uniform Business Organizations Code (UBOC), "entity" means a business or nonprofit corporation, limited liability partnership or company, limited partnership, or general cooperative association. "Interest" means a share in a business corporation, membership or share in a nonprofit corporation, partnership interest in a limited liability partnership or limited partnership, limited liability company interest, or share or membership in a general cooperative association.

Certificate of Registration. The Washington Secretary of State issues a certificate of registration to foreign entities registered in Washington. A certificate contains information including the foreign entity's name and statements indicating that the entity is registered to do business in the state and the most recent annual report has been delivered to the Secretary of State for filing. A certificate may be relied upon as conclusive evidence of the facts stated, and as of the issuance date, in the case of a foreign entity, it is registered and authorized to do business in Washington.

**Summary of Bill:** License Suspension. Beginning July 1, 2023, LCB must suspend a cannabis producer's license if no activity has been recorded on the license after July 1, 2021. A suspended cannabis producer's license must be reissued to the licensee when federal law allows for the interstate transfer of cannabis between authorized cannabis-related businesses, or the United States Department of Justice issues an opinion or memorandum allowing or tolerating the interstate transfer of cannabis between authorized cannabis-related businesses.

License Ownership. Beginning January 1, 2024, cannabis licensing requirements are modified. A person is not required to be a Washington resident, and an entity with a certificate is not required to be formed under Washington law to qualify for a cannabis license, subject to the following requirements:

- a natural person holding an ownership interest of more than 10 percent in the entity must qualify for and be named on the license;
- except as provided below, a natural person holding an ownership interest of 10 percent or less in the entity is not required to qualify for or be named on the license;
- if no natural person holds an ownership interest of more than 10 percent in the entity, the natural person with the largest ownership interest must qualify for and be named on the license;
- directors of the entity must possess the same qualifications required of the licensee; and
- the identification of a natural person holding an ownership interest of 10 percent or less but more than 1 percent in the entity, who is not otherwise required to qualify for and be named on the license must be disclosed to LCB.

LCB may impose additional licensing fees to recover costs incurred in investigating a nonresident. If, after reasonable efforts, LCB is unable to investigate a nonresident, in accordance with investigatory standards applicable to the investigation of a state resident, LCB may deny a license or renewal to an entity.

Other. Definitions of the terms entity and interest from the UBOC are referenced in the cannabis licensing statute.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Effective Date:** The bill contains several effective dates. Please refer to the bill.