

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1855 HB	<b>Title:</b> Craft cannabis endorsement
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## Estimated Cash Receipts

Agency Name	2021-23			2023-25			2025-27		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Liquor and Cannabis Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
<b>Total \$</b>	0	0	0	0	0	0	0	0	0

## Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of Attorney General	Fiscal note not available											
Liquor and Cannabis Board	5.4	0	0	1,514,052	11.7	0	0	2,924,053	11.3	0	0	2,687,722
<b>Total \$</b>	<b>5.4</b>	<b>0</b>	<b>0</b>	<b>1,514,052</b>	<b>11.7</b>	<b>0</b>	<b>0</b>	<b>2,924,053</b>	<b>11.3</b>	<b>0</b>	<b>0</b>	<b>2,687,722</b>

## Estimated Capital Budget Expenditures

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of Attorney General	Fiscal note not available								
Liquor and Cannabis Board	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

Does not include AGO fiscal note, and LCB note will be revised once LCB gets information on OAH costs.

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**Date Published:**  
Preliminary

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1855 HB	<b>Title:</b> Craft cannabis endorsement	<b>Agency:</b> 195-Liquor and Cannabis Board
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

### Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.0	10.7	5.4	11.7	11.3
<b>Account</b>					
Dedicated Marijuana Account-State 315-1	0	1,514,052	1,514,052	2,924,053	2,687,722
<b>Total \$</b>	0	1,514,052	1,514,052	2,924,053	2,687,722

### Estimated Capital Budget Impact:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate) , are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Matt Sterling	Phone: 360-786-7289	Date: 01/10/2022
Agency Preparation: Colin O Neill	Phone: (360) 522-2281	Date: 01/13/2022
Agency Approval: Aaron Hanson	Phone: 360-664-1701	Date: 01/13/2022
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/13/2022

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Section (1)(1a) - Establishes a craft cannabis endorsement available to qualified cannabis producers and processors. Requires the Washington State Liquor and Cannabis Board ("Board") to set the fee amount for the endorsement, provided the fee may not exceed \$500 per year.

Section (1)(1b) - Authorizes a cannabis producer and processor with the craft cannabis endorsement to make retail sales of cannabis produced and processed entirely by the licensee to adults age 21 and over from the licensed premise, subject to the same retail sales limits applicable to retailers and the requirement in this section.

Section (1)(1b) - The Board must adopt rules on these retail sales by January 1, 2023.

Section (1)(1c) - If a person/business holds multiple cannabis producer and processor licenses through one business or entity, then retail sales may be made from a single licensed premise but the cannabis products sold at retail may be produced and processed in any of the commonly owned licensed premises.

Section 1(2) - Limits eligibility for the craft cannabis endorsement to producers and processors who utilize not more than a total of 10,000 square feet of indoor production canopy at one licensed premise or at multiple licensed premises. All other cannabis production must be seasonal sungrown production (i.e., outdoor production).

Section 1(3) - Limits eligibility for the endorsement so that an owner of a business or entity with a producer and processor license and a craft cannabis endorsement may not have an ownership interest in, have a management role in, or exercise control over any other separately organized business or entity with a cannabis license issued in Washington State.

Section 1(4) - Includes clarifying language about what the bill does not do (i.e., does not require/authorize an increase in the amount of square feet of production canopy allowed by the Board for any licensee; does not increase the number of facilities licensees may operate; does not grant producers privileges of processors nor processors privileges of producers; and does not require the Board to issue additional producer and processor licenses).

Section 1(5) - Includes definitions of "Indoor production" and "Seasonal sungrown production" for purposes of the new section of law in the bill.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

Section (1)(1a) establishes a craft cannabis endorsement available to qualified cannabis producers and processors. Requires the Washington State Liquor and Cannabis Board ("Board") to set the fee amount for the endorsement, provided the fee may not exceed \$500 per year. It is unknown what the amount the Board will determine for the fee, so the cash receipt impact from endorsement fees is indeterminate.

However, for illustrative purposes, the Board assumes that 801 producers (75% of 1,068) may qualify for and receive the endorsement, with half of the applications received in the first year and the remaining half in the second year. If it is assumed that the Board sets the fee at \$500 per year, the cash receipts impact to the Dedicated Marijuana Account could be as follows:

FY23: \$500 x 400 = \$200,000  
FY24+: \$500 x 801 = \$400,500

In addition, it is unknown what portion of sales at these craft cannabis endorsed-licensees will be new taxable sales as opposed to shifting existing sales from other currently existing retailers. Cannabis tax revenue is therefore indeterminate.

## II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

### LICENSING DIVISION:

The division assumes that 801 producers (75% of 1,068) may qualify for (and receive) the endorsement, with half of the applications received in the first year and the remaining half in the second year. The reason for this assumption is that this endorsement is not specific to tiers and is limited those who utilize less than 10,000 of indoor plant canopy. Tier 3 producers with outdoor production of up to 30,000 sq. ft. could qualify for this endorsement. The division expects interest in this endorsement from large outdoor producers, as it creates a new business opportunity and experience for customers visiting production sites.

Depending on the complexity, the application may be processed by a Customer Service Specialist or a Licensing Specialist Senior. The retail endorsement will most likely require public posting notice and local authority notification. Applications that involve substantial costs and site plan changes to meet retail licensing requirements (security, point of sale, etc.) will need to be processed by a Licensing Specialist Senior.

Additionally, the division would need to track or have information available for indoor vs. outdoor plant canopy utilization for producers and processors to determine eligibility for this endorsement. As a result, the division is estimating a need for 0.3 FTE Data Consultant 1 to update and maintain plant canopy tracking for producers.

0.4 FTE Licensing Specialist Senior - \$32,647/yr ongoing (\$32,219 salary/benefits, \$428 in associated costs).  
0.2 FTE Customer Service Specialist 3 - \$14,469/yr ongoing (\$14,255 salary/benefits, \$214 in associated costs).  
0.3 FTE Data Consultant 1 - \$24,023/yr ongoing (\$23,192 salary/benefits, \$831 in associated costs).

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### FINANCE DIVISION:

Audit staff:

Based on the licensee estimates of 801 additional locations where sales of cannabis subject to the cannabis excise tax would take place, the Audit unit would have a significant increase in the amount of licensees requiring an audit. The work would be ongoing. Please see the attached "LCB Audit Unit Fiscal Note Calculator - 1855 HB.pdf" for audit calculations.

The agency would need 5 additional auditors (Revenue Auditor 2), which would also require an additional supervisor (Revenue Auditor 3) and an audit manager (WMS2).

5.0 FTE Revenue Auditor 2 - \$547,865/yr (\$475,965 salary/benefits, \$71,900 in associated costs). Onetime costs in FY23 of \$6,625 for equipment purchases.  
1.0 FTE Revenue Auditor 3 - \$118,017/yr (\$103,637 salary/benefits, \$14,380 in associated costs). Onetime costs in FY23 of \$1,325 for equipment purchases.

1.0 FTE WMS Band 2 - \$143,944/yr (\$129,564 salary/benefits, \$14,380 in associated costs). Onetime costs in FY23 of \$1,325 for equipment purchases.

General Accounting:

The applications for the endorsements will be received by the Board's cashier. With 801 applications in FY23-FY24, the unit will have a workload impact of 0.1 FTE Fiscal Analyst 2 (FA2) for those years. Renewals of endorsements are done through the Department of Revenue's Business Licensing Service and there would be no impact to the unit from renewals.

0.1 FTE Fiscal Analyst 2 - \$8,005/yr (\$7,898 salary/benefits, \$107 in associated costs). FY23/FY24 only.

In addition, the agency estimates in FY23, there will be 3 cash room appointments per month, by producer /processors holding the craft cannabis endorsement to deposit their cannabis excise tax payments. These cash deposits are picked up by armored courier (\$150/pickup). \$150/pickup x 3x per month x 12 months = \$5,400 in FY23. After FY23, the agency anticipates those licensees will open accounts at financial institutions and be able to mail checks for their tax obligations.

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ENFORCEMENT DIVISION:

The Board keeps detailed statistics on all of its enforcement activities and tracks this activity using a unit of measure called a Field Increment (FI). All direct enforcement activities such as premise checks, inspections and investigations are tracked to determine how many FI's are needed to accomplish each activity. Each FI is equivalent to 1 /10th of an hour (6 minutes). For example, if a tavern premise check takes 2 FI's and two officers, it is anticipated that one check will consume 4 FI's. Using historical data to factor out indirect activities such as driving time, training, office time and leave, it has been determined that officers are available for an average of 4,220 FI's each year.

Workload impacts from this bill are expected from premise checks, compliance checks, education, investigations, and consultant visits. Please see the attached "1855 HB Craft Cannabis Enforcement Field Increment Calculator.pdf" for workload calculations.

FY23:

1.0 FTE LCB Enforcement Officer 2 - \$119,330 (\$103,470 salary/benefits, \$15,860 in associated costs). Onetime costs of \$26,395 for equipment purchases.

1.0 FTE Administrative Regulations Analyst 3 - \$115,176 (\$99,316 salary/benefits, \$15,860 in associated costs). Onetime costs of \$9,815 for equipment purchases.

FY24+

2.0 FTE LCB Enforcement Officer 2 - \$238,660/yr (\$206,940 salary/benefits, \$31,720 in associated costs). Onetime costs in FY24 of \$26,395 for equipment purchases.

2.0 FTE Administrative Regulations Analyst 3 - \$230,352/yr (\$198,632 salary/benefits, \$31,720 in associated costs). Onetime costs in FY24 of \$9,815 for equipment purchases.

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INFORMATION TECHNOLOGY DIVISION:

The agency will have IT costs for development work to add the the craft cannabis endorsement into the iSeries, internal reports, interfaces, and web portal. This analysis also assumes that the new endorsement will be incorporated into one of

the agency's existing fee systems and development work for that is included as well.

**STAFF COSTS:**

0.7 FTE IT App Development - Senior/Specialist - \$105,166 (\$104,417 salary/benefits, \$749 in associated costs).  
 Onetime costs in FY23 of \$1,725 for equipment purchases.

**VENDOR COSTS:**

iSeries: \$24,000 (160 hours x \$150/hr)  
 Enforcement Notebook: \$800 (8 hours x \$100/hr)

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**BOARD DIVISION:**

The Washington State Attorney General's Office (AGO) anticipates billing the agency for legal work arising from denials of endorsement applications, as well as appeals of enforcement actions.

FY23: \$208,000  
 FY24: \$157,000  
 FY25: \$70,000  
 FY26+: \$41,000/yr

There may be additional costs from the Office of Administrative Hearings (OAH) that are expected to be relatively minimal but the estimate is not yet available.

**Part III: Expenditure Detail**

**III. A - Operating Budget Expenditures**

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
315-1	Dedicated Marijuana Account	State	0	1,514,052	1,514,052	2,924,053	2,687,722
<b>Total \$</b>			0	1,514,052	1,514,052	2,924,053	2,687,722

**III. B - Expenditures by Object Or Purpose**

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		10.7	5.4	11.7	11.3
A-Salaries and Wages		799,486	799,486	1,694,618	1,656,522
B-Employee Benefits		294,447	294,447	635,614	619,338
C-Professional Service Contracts		24,800	24,800		
E-Goods and Other Services		266,227	266,227	329,417	167,038
G-Travel		100,310	100,310	241,260	237,260
J-Capital Outlays		28,782	28,782	23,144	7,564
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total \$</b>	0	1,514,052	1,514,052	2,924,053	2,687,722

**III. C - Operating FTE Detail:** *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Administrative Regulations Analyst 3	72,756		1.0	0.5	2.0	2.0
Customer Service Specialist 3	48,996		0.2	0.1	0.1	
Data Consultant 1	54,108		0.3	0.2	0.3	0.3
Fiscal Analyst 2	55,524		0.1	0.1	0.1	
IT App Development - Senior/Specialist	114,984		0.7	0.4		
LCB Enforcement Officer 2	74,604		1.0	0.5	2.0	2.0
Licensing Specialist Senior	56,856		0.4	0.2	0.2	
Revenue Auditor 2	69,264		5.0	2.5	5.0	5.0
Revenue Auditor 3	76,416		1.0	0.5	1.0	1.0
WMS Band 2	94,572		1.0	0.5	1.0	1.0
<b>Total FTEs</b>			10.7	5.4	11.7	11.3

**III. D - Expenditures By Program (optional)**

Program	FY 2022	FY 2023	2021-23	2023-25	2025-27
Board Division (010)		208,000	208,000	227,000	82,000
Finance Division (020)		832,506	832,506	1,627,657	1,619,652
Licensing Division (050)		71,139	71,139	95,162	48,046
Enforcement Division (060)		270,716	270,716	974,234	938,024
Information Technology Division (070)		131,691	131,691		
<b>Total \$</b>		1,514,052	1,514,052	2,924,053	2,687,722

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods*

NONE

**IV. D - Capital FTE Detail:** *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

**Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules .*

Section (1)(1a) - Establishes a craft cannabis endorsement available to qualified cannabis producers and processors. Requires the Washington State Liquor and Cannabis Board ("Board") to set the fee amount for the endorsement, provided the fee may not exceed \$500 per year.

Section (1)(1b) - Authorizes a cannabis producer and processor with the craft cannabis endorsement to make retail sales of cannabis produced and processed entirely by the licensee to adults age 21 and over from the licensed premise, subject to the



same retail sales limits applicable to retailers  
and the requirement in this section.

Section (1)(1b) - The Board must adopt rules on these retail sales by January 1, 2023.

## LCB AUDIT UNIT FISCAL NOTE CALCULATOR

### 1855 HB "Craft Cannabis"

# of affected licenses	Average # hours/audit	Audit frequency (in years)	Total budgeted hours/year	FTE calculation	# FTE's needed	FTE Title
801	22	4	4,405.50	4.41	5.00	Auditor (Revenue Analyst 2)
				1.0	1.00	Supervisor (Revenue Analyst 3)
				1.0	1.00	Audit Manager (WMS Band 2)

**Notes specific to this bill:**

22 hours per audit reflects the low-end budget average for an audit of a cannabis retailer.  
 Addition of a third supervisor to existing unit requires a new audit manager.

**General Notes:**

Each auditor can on average, perform 1,000 hours of audits per year (remaining time spent with meetings, driving, leave, etc)  
 1 Audit Supervisor is required for every 4 auditors in the unit.

Low Risk audits: performed every 7 years  
 High Risk audits: performed every 4 years

**Enforcement Field Increment (FI) Calculator**

**1855 HB "Craft Cannabis"**

Year 1

Event	# of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Cannabis Premises Check (Retail/Non-Retail)	400	8	1.3	4,160.0	1,372.8	2,787.2
Cannabis Retailer Compliance Check	800	2	2.0	3,200.0	3,200.0	
License Support and Education (cannabis)	132	10	1.0	1,320.0		1,320.0
Complaint Investigations - Cannabis	4	20	1.3	104.0	104.0	
Consultant Visits	100	9	1.0	900.0		900.0

<b>Total FI's</b>	<b>9,684</b>	<b>4,677</b>	<b>5,007</b>
<b>Total Field Increments per FTE</b>	4,220	4,220	4,220
<b>FTE's required</b>	2.29	1.11	1.19
<b>Round</b>	<b>2.00</b>	<b>1.00</b>	<b>1.00</b>

Factors	Values
Number of retail locations	400
Cannabis Premises Check (Retail/Non-Retail)	100%
Cannabis Retailer Compliance Check	2
License Support and Education (cannabis)	33%
Complaint Investigations - Cannabis	1%
Consultant Visits	25%
Premise checks performed by Officer	33%
Premise checks performed by Consultant	67%

Year 2 and ongoing

Event	# of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Cannabis Premises Check (Retail/Non-Retail)	801	8	1.3	8,330.4	2,749.0	5,581.4
Cannabis Retailer Compliance Check	1,602	2	2.0	6,408.0	6,408.0	
License Support and Education (cannabis)	264	10	1.0	2,643.3		2,643.3
Complaint Investigations - Cannabis	8	20	1.3	208.3	208.3	
Consultant Visits	200	9	1.0	1,802.3		1,802.3

<b>Total FI's</b>	<b>19,392</b>	<b>9,365</b>	<b>10,027</b>
<b>Total Field Increments per FTE</b>	4,220	4,220	4,220
<b>FTE's required</b>	4.60	2.22	2.38
<b>Round</b>	<b>4.00</b>	<b>2.00</b>	<b>2.00</b>

Factors	Values
Number of retail locations	801
Cannabis Premises Check (Non-Retail)	100%
Cannabis Retailer Compliance Check	2
License Support and Education (cannabis)	33%
Complaint Investigations - Cannabis	1%
Consultant Visits	25%
Premise checks performed by Officer	33%
Premise checks performed by Consultant	67%

1. Cannabis Premises checks. Current rate for Cannabis retail locations is 3.4 visits per year, producer and processors are visited 1.2 times per year. Retailers are visited 2.1 visits per year more than producer/processors. Due to projected limited business hours and duplication of work by the officers, a planning factor of 1.2 additional visits per year would be need per craft cannabis location. Consultant visits are factored into these premises checks numbers.

2. Current policy is for a cannabis retailer to have two compliance checks per year. Craft cannabis locations would also have two compliance checks per year. This is in line with the agency's task to prevent youth access.

3. Education to businesses is a key part of our partnership with the industry. Education provided to a producer and or processor is similar in nature to that provided to a retailer. The main difference between the two parts of the industry is education on youth access. Retailers receive on average 1.3 educational events per year related to youth access. All craft cannabis retailers could expect some form of education on youth access. Instead of applying this 1.3 rate of youth access to each location, a rate of 1.0 per location is needed in additional officer time for education on youth access. This lower rate reflects that anticipated duplication of effort by the officer who are already conducting education on other topics.

4. Youth access complaints. Current rate - 1.4% of retailers have a complaint lodged against them for youth access/sale to minor. A lower rate of 1% was chosen as a planning factor due to limited sales hours at craft cannabis locations.