

Multiple Agency Fiscal Note Summary

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| Bill Number: 2037 HB | Title: Cannabis |
|-----------------------------|------------------------|

Estimated Cash Receipts

| Agency Name | 2025-27 | | | 2027-29 | | | 2029-31 | | |
|-----------------------------------|----------|-------------|------------------|----------|-------------|----------------|----------|-------------|----------------|
| | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total |
| Office of Attorney General | 0 | 0 | 2,487,000 | 0 | 0 | 523,000 | 0 | 0 | 40,000 |
| Office of Administrative Hearings | 0 | 0 | 1,740,000 | 0 | 0 | 170,000 | 0 | 0 | 0 |
| Liquor and Cannabis Board | 0 | 0 | 200,943 | 0 | 0 | 236,727 | 0 | 0 | 235,152 |
| Total \$ | 0 | 0 | 4,427,943 | 0 | 0 | 929,727 | 0 | 0 | 275,152 |

Estimated Operating Expenditures

| Agency Name | 2025-27 | | | | 2027-29 | | | | 2029-31 | | | |
|-----------------------------------|-------------|----------------|----------------|------------------|------------|----------|-------------|------------------|------------|----------|-------------|------------------|
| | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total |
| Office of Attorney General | 8.1 | 0 | 0 | 2,487,000 | 1.8 | 0 | 0 | 523,000 | .4 | 0 | 0 | 40,000 |
| Office of Administrative Hearings | 5.6 | 0 | 0 | 1,740,000 | .6 | 0 | 0 | 170,000 | .0 | 0 | 0 | 0 |
| Department of Revenue | .7 | 307,900 | 307,900 | 307,900 | .0 | 0 | 0 | 0 | .0 | 0 | 0 | 0 |
| Liquor and Cannabis Board | 4.2 | 0 | 0 | 5,310,205 | 4.2 | 0 | 0 | 1,670,860 | 4.2 | 0 | 0 | 1,017,860 |
| Total \$ | 18.6 | 307,900 | 307,900 | 9,845,105 | 6.6 | 0 | 0 | 2,363,860 | 4.6 | 0 | 0 | 1,057,860 |

Estimated Capital Budget Expenditures

| Agency Name | 2025-27 | | | 2027-29 | | | 2029-31 | | |
|-----------------------------------|------------|----------|----------|------------|----------|----------|------------|----------|----------|
| | FTEs | Bonds | Total | FTEs | Bonds | Total | FTEs | Bonds | Total |
| Office of Attorney General | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Office of Administrative Hearings | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Department of Revenue | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Liquor and Cannabis Board | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Total \$ | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 |

Estimated Capital Budget Breakout

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|------------------------------------|---------------------------------|---|
| Prepared by: Val Terre, OFM | Phone: (360) 280-3073 | Date Published: Final 4/ 7/2025 |
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Individual State Agency Fiscal Note

| | | |
|-----------------------------|------------------------|---|
| Bill Number: 2037 HB | Title: Cannabis | Agency: 100-Office of Attorney General |
|-----------------------------|------------------------|---|

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

| ACCOUNT | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|-----------|-----------|-----------|---------|---------|
| Legal Services Revolving Account-State 405-1 | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |
| Total \$ | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |

Estimated Operating Expenditures from:

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|-----------|-----------|-----------|---------|---------|
| FTE Staff Years | 6.8 | 9.3 | 8.1 | 1.8 | 0.4 |
| Account | | | | | |
| Legal Services Revolving Account-State 405-1 | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |
| Total \$ | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |

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: Rachelle Harris | Phone: 360-786-7137 | Date: 03/12/2025 |
| Agency Preparation: Dave Merchant | Phone: 360-753-1620 | Date: 03/25/2025 |
| Agency Approval: Leah Snow | Phone: 360-586-2104 | Date: 03/25/2025 |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 03/31/2025 |

Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1: New Section. Findings regarding challenges to obtaining funding and residency requirements that disproportionately impact low income and minority persons interested in becoming licensed cannabis producers, processors, and retailers. A time-limited tax exemption and modification to residency requirements can help address these impacts.

Section 2: Amends RCW 69.50.325 regarding license fees (technical and substantive edits), to allow agricultural organizations and associations, and to limit ownership interests across multiple licenses.

Section 3: Amends RCW 59.50.331 to modify residency requirements.

Section 4: Amends RCW 19.86.070 to include cannabis as an agricultural product.

Section 5: Amends RCW 24.34.010 to include licensed cannabis producers, processors, and retailers as persons eligible to form agricultural associations.

Section 6: New Section added to RCW 82.04. Chapter does not apply to licensed cannabis producers, processors, and retailers for five years after reaching \$5,000 in sales revenues. Section expires 7/1/2039.

Section 7: New Section added to RCW 82.04. Chapter does not apply to licensed cannabis producers, processors, and retailers who receive license by transfer or assumption. Section expires 6/30/2052.

Section 8: New Section. Provides tax preference policy statement in favor of licensed cannabis producers, processors, and retailers.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

Cash receipts are assumed to equal the Legal Services Revolving Account (LSRA) cost estimates. These will be billed through the revolving account to the client agency.

The client agency is the Liquor and Cannabis Board (LCB). The Attorney General’s Office (AGO) will bill all clients for legal services rendered.

These cash receipts represent the AGO’s authority to bill and are not a direct appropriation to the AGO. The direct appropriation is reflected in the client agency’s fiscal note. Appropriation authority is necessary in the AGO budget.

AGO AGENCY ASSUMPTIONS:

LCB will be billed for non-King County rates:
FY 2026: \$1,044,000 for 3.2 Assistant Attorney General FTE (AAG), 0.8 Paralegal 2 FTE (PL2), and 1.6 Paralegal 1 FTE (PL1)
FY 2027: \$1,443,000 for 4.5 AAG, 0.9 PL2, and 2.3 PL1
FY 2028: \$465,000 for 1.5 AAG, 0.2 PL2, and 0.8 PL1
FY 2029: \$58,000 for 0.2 AAG, 0.1 PL2, and 0.1 PL1
FY 2030 and in each FY thereafter: \$20,000 for 0.1 AAG, 0.1 PL2, and 0.1 PL1

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Attorney General's Office (AGO) Agency Assumptions:

This bill is assumed effective 90 days after the end of the 2025 legislative session.

Location of staffing is assumed to be in a non-King County office building.

Total workload impact in this request includes standard assumption costs for goods & services, travel, and capital outlays for all FTE identified.

Agency administration support FTE are included in the tables. The Management Analyst 5 FTE (MA) is used as a representative classification. An example ratio is for every 1.0 Assistant Attorney General FTE (AAG), the AGO includes 0.5 Paralegal 1 FTE (PL1) and 0.4 MA.

1. Assumptions for the AGO Government Compliance & Enforcement Division (GCE) Legal Services for the Liquor and Cannabis Board (LCB):

The AGO will bill LCB for legal services based on the enactment of this bill.

This bill would eliminate the residency requirement for cannabis licensees in Washington State, which would allow out-of-state residents to apply for cannabis licenses, including social equity licenses, for the first time. Additionally, it would explicitly prohibit licensees or other affiliated persons from entering into what are commonly known as "management agreements" in the cannabis industry, which includes sharing employment and hiring or marketing and advertising costs.

LCB assumes that in early FY 2026, it would receive 426 new out-of-state ownership change requests under the provisions of this bill. It further assumes that approximately two percent or none of these applicants would be denied. LCB assumes that five of the denials would result in hearings to challenge the denials. GCE assumes that each new licensing action would utilize 15 AAG hours, for an increase of 75 AAG hours (five x 15) in FY 2026. Based on current workloads and Paralegal 2 FTE (PL2) utilization, GCE assumes that we would utilize PL2 services for this new work at a ratio of one PL2 hour for three AAG hours, which would result in an increase of 25 PL2 hours in FY 2026. Finally, GCE assumes that LCB would continue to receive a small number of out-of-state ownership change requests beginning in FY 2027; however, those requests would be infrequent and inconsistent and any small amount of litigation stemming from them could be handled within existing resources.

In FY 2027, GCE assumes one ownership change licensing denial would be challenged on judicial review. GCE further assumes that this judicial review of a licensing denial would be certified to the Court of Appeals (COA). Because of the more stringent requirements for litigation before COA, GCE assumes that this licensing denial judicial review would utilize approximately 120 AAG hours (one x 120) in FY 2027.

LCB also assumes that it would open a retail licensing window in early FY 2026 for the 52 available Cannabis Social Equity program licenses, and that under this bill, they would receive an additional 1,000 out-of-state applications over those anticipated under the existing law. It assumes that of those 1,000 new applications, 26 would be granted. LCB assumes that of the remaining 974 applications, approximately 75 percent, or 730 applications would be withdrawn without requesting a hearing due to the limited number of licenses available. It also assumes that the remaining 244 applications would be denied and would request hearings to challenge the denials. GCE assumes that of the 244 hearing requests, approximately 80 percent, or 195 cases would be litigated in FY 2026. GCE further assumes that the remaining 49 cases would be litigated in FY 2027. GCE assumes that each new licensing action would utilize an average of 20 AAG hours, for a total increase of 3,900 AAG hours (195 x 20) in FY 2026 and 980 AAG hours (49 x 20) in FY 2027. Based on current workloads and

paralegal utilization, GCE assumes that we would utilize paralegal services for this new work at a ratio of approximately one PL2 hour for three AAG hours, which would result in an increase of 1,300 PL2 hours in FY 2026 and 327 PL2 hours in FY 2027.

GCE assumes that approximately five percent of the retail license denials litigated in each of the previous fiscal years would be challenged on judicial review the following year. Therefore, in FY 2027 GCE assumes that we would receive approximately 10 licensing denial judicial reviews, which would utilize approximately 1,200 AAG hours (10 x 120). In FY 2028, GCE assumes that we would receive approximately two licensing denial judicial reviews, which would utilize approximately 240 AAG hours (two x 120).

LCB further assumes that it would open a producer/processor licensing window in early FY 2027 for the 110 available Cannabis Social Equity program licenses, and that under this bill, they would receive an additional 1,000 out-of-state applications over those anticipated under the existing law. LCB assumes that of those 1,000 new applications, 55 would be granted. LCB assumes that of the remaining 945 applications, approximately 75 percent, or 709 would be withdrawn without requesting a hearing, and that the remaining 236 applications would be denied and would request hearings. GCE assumes that of the 236 hearing requests, approximately 80 percent, or 189 cases would be litigated in FY 2027. GCE further assumes that the remaining 47 cases would be litigated in FY 2028. GCE assumes that each of these new licensing actions would utilize an average of 20 AAG hours, for a total increase of 3,780 AAG hours (189 x 20) and 1,260 PL2 hours in FY 2027, and 940 AAG hours (47 x 20) and 313 PL2 hours in FY 2028.

GCE assumes that approximately five percent of the retail license denials litigated in each of the previous fiscal years would be challenged on judicial review the following year. Therefore, in FY 2028, GCE assumes that we would receive approximately nine licensing denial judicial reviews, which would utilize approximately 1,080 AAG hours (nine x 120). In FY 2029, GCE assumes that we would receive approximately two licensing denial judicial reviews, which would utilize approximately 240 AAG hours (two x 120).

As a result of the provisions in Section 2(3)(b)(ii) relating to the prohibition against “management agreements,” LCB assumes that we will receive six hearings in FY 2026. GCE assumes that each management agreement hearing would utilize an average of 40 AAG hours, for a total increase of 240 AAG hours (six x 40) and 80 PL2 hours in FY 2026.

In FY 2027, GCE assumes two of the management agreement hearings would be challenged on judicial review, which would utilize approximately 240 AAG hours (two x 120).

LCB also assumes out-of-state ownership would generate approximately some small number of complex enforcement investigations each year beginning in FY 2027. LCB further assumes that these new investigations would result in two new enforcement cases each year. GCE assumes that each new enforcement action would utilize 50 AAG hours, for a total annual increase of 100 AAG hours (two x 50) and 33 PL2 hours beginning in FY 2027 and continuing each year thereafter.

LCB anticipates that rulemaking would be required as a result of this bill. GCE assumes that the rulemaking would occur in FY 2026. GCE anticipates that the AGO Licensing & Administrative Law Division (LAL) would provide the majority of the rulemaking advice; however, GCE assumes that we would be asked for input and that would utilize 10 AAG hours in FY 2026.

GCE total workload hours:

FY 2026: 4,225 AAG hours and 1,405 PL2 hours

FY 2027: 6,420 AAG hours and 1,587 PL2 hours

FY 2028: 2,360 AAG hours and 346 PL2 hours

FY 2029: 340 AAG hours and 33 PL2 hours

FY 2030 and FY 2031: 100 AAG hours and 33 PL2 hours

GCE total non-King County workload impact:

FY 2026: \$797,000 for 2.4 AAG, 0.8 PL2, and 1.2 PL1
FY 2027: \$1,170,000 for 3.6 AAG, 0.9 PL2, and 1.8 PL1
FY 2028: \$412,000 for 1.4 AAG, 0.2 PL2, and 0.7 PL1
FY 2029: \$58,000 for 0.2 AAG, 0.1 PL2, and 0.1 PL1
FY 2030 and in each FY thereafter: \$20,000 for 0.1 AAG, 0.1 PL2, and 0.1 PL1

2. Assumptions for the AGO Licensing & Administrative Law Division (LAL) Legal Services for the Liquor and Cannabis Board (LCB):

The AGO will bill LCB for legal services based on the enactment of this bill.

This bill has two significant components for the purposes of this analysis. First, it eliminates the residency requirement for cannabis licensees in Washington State. This would allow out-of-state residents to apply for cannabis licenses, including social equity licenses, for the first time. Additionally, it explicitly prohibits licensees or other affiliated persons from entering into what are commonly known as “management agreements” in the cannabis industry, which includes sharing employment and hiring or marketing and advertising costs.

LAL advises LCB on rulemaking, contracting, and other requirements related to implementation. LAL represents LCB in any original actions related to this bill and advises LCB on final orders in its adjudicative capacity. This bill will likely require some rulemaking related to the relationship between out-of-state and current regulatory requirement. LAL anticipates it will provide 50 AAG hours of advice on rulemaking to LCB in FY 2026. LAL also advises LCB on final orders when acting in its adjudicative capacity. Each licensing or enforcement action will require on average seven AAG hours to account for defaults.

LCB assumes that there will be 426 new out-of-state applicants and to assume existing cannabis licenses or to become owners on existing licenses, and that approximately two percent or nine applicants will be denied. LCB further assumes that five of the denials would result in hearings to challenge the denials. GCE projects no defaults out of that total. LAL will spend 35 AAG hours advising on final orders related to assumptions in FY 2026. There may be infrequent and inconsistent related hearings after FY 2026; however, these can be litigated within existing resources.

LCB anticipates that it will receive an additional 1,000 applications for the retail social equity window that will be opened in 2025. During that window, it has 52 retail applications available, and this additional 1,000 applications will result in approximately 974 additional withdrawn applications. Of those 974, LCB estimates 25 percent will appeal, resulting in 244 adjudications. LCB projects withdrawals will occur in between September and October 2025.

Given the number of appeals of licensing decisions, litigation around those appeals will begin in FY 2026, with some continuing into FY 2027. LAL anticipates that all defaults will occur in FY 2026, and that 80 percent or 195 of the hearings will be litigated before the Board in FY 2026, with the remaining 20 percent or 49 in FY 2027. LAL therefore anticipates it will spend 1,365 AAG hours advising on hearings in FY 2026. LAL will spend 340 AAG hours on final orders in FY 2027.

LCB also anticipates 1,000 additional applications for its producer/processor window, which will be open in FY 2027. LCB has a total of 110 licenses available for producer/processors, of which 55 will go to currently anticipated licensees. LCB therefore anticipates withdrawing 945 applications, of which 25 percent or 236 will appeal. LAL anticipates 80 percent or 189 of cases will resolve in FY 2027, with the remaining 47 hearings resolving in FY 2028.

In FY 2027, LAL will spend 1,320 AAG hours advising on hearings in FY 2027, while spending 330 AAG hours advising on Final Orders in FY 2028.

LCB assumes that there will be six appeals related to the change in Section 2(3)(b)(ii) in FY 2026. LAL will spend 40 AAG hours advising on final orders related to Section 2(3)(b)(ii).

LAL total workload hours:
 FY 2026: 1,490 AAG hours
 FY 2027: 1,660 AAG hours
 FY 2028: 330 AAG hours

LAL total non-King County workload impact:
 FY 2026: \$247,000 for 0.9 AAG and 0.5 PL1
 FY 2027: \$273,000 for 1.0 AAG and 0.5 PL1
 FY 2028: \$53,000 for 0.2 AAG and 0.1 PL1

3. The AGO Solicitor General’s Office (SGO) has reviewed this bill and determined it will not increase or decrease the division’s workload in advice or litigation. Therefore, no costs are included in this request.

4. The AGO Revenue Division (REV) has reviewed this bill and determined it will not significantly increase or decrease the division’s workload in representing the Department of Revenue (DOR). REV does not anticipate DOR needing substantial legal services as a result of this bill. This bill creates two new business and occupation tax deductions. It may require REV to review DOR’s rule updates and provide up to 10 hours of legal advice. New legal services are nominal, and costs are not included in this request.

Total AAG hours:
 FY 2026: 5,715 AAG hours and 1,405 PL2 hours
 FY 2027: 8,080 AAG hours and 1,587 PL2 hours
 FY 2028: 2,690 AAG hours and 346 PL2 hours
 FY 2029: 340 AAG hours and 33 PL2 hours
 FY 2030 and in each FY thereafter: 100 AAG hours and 33 PL2 hours

Total workload impact:
 FY 2026: \$1,044,000 for 3.2 AAG, 0.8 PL2, and 1.6 PL1
 FY 2027: \$1,443,000 for 4.5 AAG, 0.9 PL2, and 2.3 PL1
 FY 2028: \$465,000 for 1.5 AAG, 0.2 PL2, and 0.8 PL1
 FY 2029: \$58,000 for 0.2 AAG, 0.1 PL2, and 0.1 PL1
 FY 2030 and in each FY thereafter: \$20,000 for 0.1 AAG, 0.1 PL2, and 0.1 PL1

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------|-------------------------------------|-------|-----------|-----------|-----------|---------|---------|
| 405-1 | Legal Services Revolving Account | State | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |
| Total \$ | | | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |

III. B - Expenditures by Object Or Purpose

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------------------------|-----------|-----------|-----------|---------|---------|
| FTE Staff Years | 6.8 | 9.3 | 8.1 | 1.8 | 0.4 |
| A-Salaries and Wages | 707,000 | 978,000 | 1,685,000 | 356,000 | 28,000 |
| B-Employee Benefits | 217,000 | 299,000 | 516,000 | 108,000 | 8,000 |
| E-Goods and Other Services | 114,000 | 157,000 | 271,000 | 56,000 | 4,000 |
| G-Travel | 6,000 | 9,000 | 15,000 | 3,000 | |
| Total \$ | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |

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 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Assistant Attorney General | 132,912 | 3.2 | 4.5 | 3.9 | 0.9 | 0.1 |
| Management Analyst 5 | 98,040 | 1.2 | 1.6 | 1.4 | 0.4 | 0.1 |
| Paralegal 1 | 71,148 | 1.6 | 2.3 | 2.0 | 0.5 | 0.1 |
| Paralegal 2 | 78,468 | 0.8 | 0.9 | 0.9 | 0.2 | 0.1 |
| Total FTEs | | 6.8 | 9.3 | 8.1 | 1.8 | 0.4 |

III. D - Expenditures By Program (optional)

| Program | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|--|-----------|-----------|-----------|---------|---------|
| Government Compliance & Enforcement Division (GCE) | 797,000 | 1,170,000 | 1,967,000 | 470,000 | 40,000 |
| Licensing & Administrative Law Division (LAL) | 247,000 | 273,000 | 520,000 | 53,000 | |
| Total \$ | 1,044,000 | 1,443,000 | 2,487,000 | 523,000 | 40,000 |

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

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

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Revised

| | | |
|-----------------------------|------------------------|--|
| Bill Number: 2037 HB | Title: Cannabis | Agency: 110-Office of Administrative Hearings |
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

| ACCOUNT | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|---------|---------|-----------|---------|---------|
| Administrative Hearings Revolving Account-State 484-1 | 825,000 | 915,000 | 1,740,000 | 170,000 | |
| Total \$ | 825,000 | 915,000 | 1,740,000 | 170,000 | |

Estimated Operating Expenditures from:

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|---------|---------|-----------|---------|---------|
| FTE Staff Years | 5.3 | 5.9 | 5.6 | 0.6 | 0.0 |
| Account | | | | | |
| Administrative Hearings Revolving Account-State 484-1 | 825,000 | 915,000 | 1,740,000 | 170,000 | 0 |
| Total \$ | 825,000 | 915,000 | 1,740,000 | 170,000 | 0 |

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: Rachelle Harris | Phone: 360-786-7137 | Date: 03/12/2025 |
| Agency Preparation: Pete Boeckel | Phone: 360-407-2730 | Date: 03/26/2025 |
| Agency Approval: Rob Cotton | Phone: 360-407-2708 | Date: 03/26/2025 |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 03/31/2025 |

Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 2 (3)(b)(ii) prohibits the current licensees and other persons/entities from having financial interest in more than five retail cannabis licenses.

Section 3(b) has been amended to remove the residency requirements for the issuance of licenses for parties other than the majority interest holder.

Section 6 outlines that the loosening of the residency requirements do not apply to licenses issued under the Cannabis Social Equity Program until five year after the licensee exceeds \$5,000 in sales revenue.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

As a central service agency, the Office of Administrative Hearings (OAH) bills referring agencies for its costs and collects the revenue into the Administrative Hearings Revolving Account. Cash receipts are assumed to equal costs. OAH will bill the Liquor & Cannabis Board for the costs related to this proposed legislation.

These cash receipts represent the OAH's authority to bill and are not a direct appropriation to OAH. Appropriation authority is necessary in OAH's budget.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

The Liquor & Cannabis Board estimates that the proposed legislation will result in new appeals being referred to the Office of Administrative Hearings (OAH):

FY2026: 203 new appeals

FY2027: 226 new appeals

FY2028: 42 new appeals

FY2029 and each FY thereafter: No fiscal impact.

On average, each appeal is expected to take approximately 17 hours of Line Administrative Law Judge (ALJ) time including prehearing conferences, hearings, order writings, etc.

OAH Agency Workforce Assumptions:

(1) 1.0 Line ALJ will include cost and FTE for 0.15 Senior ALJ (SALJ), 0.15 Lead ALJ (LALJ), 0.6 Legal Assistant 2 (LA2) (Range 40 step L), and 0.25 administrative support represented as a Management Analyst 5 (MA5) (Range 64 Step L).

(2) ALJ salary is based on the ALJ collective bargaining agreement and assumed to be at step L. (Line ALJ-range 70, Senior ALJ-range 76, Lead ALJ-range 73).

(3) Benefit rates were analyzed by job class and projected using the latest benefit information available.

(4) Goods and services, travel and on-going capital outlays were projected based on historical data for each of the job classifications.

(5) Salary projections are based on the current FY 2025 salary tables.

Total workload impact:

FY 2026: 2.47 ALJ, 0.37 SALJ, 0.37 LALJ, 1.48 LA2 and 0.62 MA5 at a rounded cost of \$825,000.

FY 2027: 2.74 ALJ, 0.41 SALJ, 0.41 LALJ, 1.64 LA2 and 0.69 MA5 at a rounded cost of \$915,000.

FY 2028: 0.51 ALJ, 0.08 SALJ, 0.08 LALJ, 0.31 LA2 and 0.13 MA5 at a rounded cost of \$170,000.

FY 2029 and in each FY thereafter: No fiscal Impact.

This bill is assumed effective 90 days after the end of the 2025 legislative session.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------|---|-------|---------|---------|-----------|---------|---------|
| 484-1 | Administrative Hearings Revolving Account | State | 825,000 | 915,000 | 1,740,000 | 170,000 | 0 |
| Total \$ | | | 825,000 | 915,000 | 1,740,000 | 170,000 | 0 |

III. B - Expenditures by Object Or Purpose

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|--------------------------------------|---------|---------|-----------|---------|---------|
| FTE Staff Years | 5.3 | 5.9 | 5.6 | 0.6 | |
| A-Salaries and Wages | 518,000 | 575,000 | 1,093,000 | 107,000 | |
| B-Employee Benefits | 163,000 | 181,000 | 344,000 | 34,000 | |
| C-Professional Service Contracts | | | | | |
| E-Goods and Other Services | 133,000 | 147,000 | 280,000 | 27,000 | |
| G-Travel | 5,000 | 5,000 | 10,000 | 1,000 | |
| J-Capital Outlays | 6,000 | 7,000 | 13,000 | 1,000 | |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| Total \$ | 825,000 | 915,000 | 1,740,000 | 170,000 | 0 |

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 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---------------------------------|---------|---------|---------|---------|---------|---------|
| Administrative Law Judge | 113,712 | 2.5 | 2.7 | 2.6 | 0.3 | |
| Lead ALJ | 122,496 | 0.4 | 0.4 | 0.4 | 0.0 | |
| Legal Assistant 2 | 55,584 | 1.5 | 1.6 | 1.6 | 0.2 | |
| Management Analyst 5 | 98,040 | 0.6 | 0.7 | 0.7 | 0.1 | |
| Senior Administrative Law Judge | 131,880 | 0.4 | 0.4 | 0.4 | 0.0 | |
| Total FTEs | | 5.3 | 5.9 | 5.6 | 0.6 | 0.0 |

III. D - Expenditures By Program (optional)

| Program | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|------------------------------|---------|---------|-----------|---------|---------|
| Regulatory & Education (REG) | 825,000 | 915,000 | 1,740,000 | 170,000 | |
| Total \$ | 825,000 | 915,000 | 1,740,000 | 170,000 | |

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

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

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

| | | |
|-----------------------------|------------------------|--|
| Bill Number: 2037 HB | Title: Cannabis | Agency: 140-Department of Revenue |
|-----------------------------|------------------------|--|

Part I: Estimates

☐

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 1.3 | 0.2 | 0.7 | | |
| Account | | | | | |
| GF-STATE-State 001-1 | 284,000 | 23,900 | 307,900 | | |
| Total \$ | 284,000 | 23,900 | 307,900 | | |

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: Rachelle Harris | Phone: (360) 786-7137 | Date: 03/12/2025 |
| Agency Preparation: Van Huynh | Phone: (360) 534-1512 | Date: 03/17/2025 |
| Agency Approval: Marianne McIntosh | Phone: (360) 534-1505 | Date: 03/17/2025 |
| OFM Review: Megan Tudor | Phone: (360) 890-1722 | Date: 03/19/2025 |

Request # 2037-1-1

Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

A cannabis license may not be issued to a person doing business as a sole proprietor who has not resided in Washington for at least six months prior to applying for a license. The annual license renewal fee for a Washington state cannabis producer, processor, or retailer is \$1,381.

No business and occupation (B&O) tax exemptions exist for cannabis businesses.

PROPOSAL:

This bill removes the Washington residency requirement for cannabis licensees. The bill also creates an out-of-state annual cannabis license renewal fee different from the in-state annual cannabis license renewal fee. The annual license fee for an out-of-state cannabis producer, processor, or retailer is \$1,657.

This bill provides two exemptions from B&O tax for cannabis producers, processors, or retailers who will obtain licenses with the Liquor and Cannabis Board (LCB) under the Cannabis Social Equity program.

One exemption begins when the licensee exceeds \$5,000 in sales and lasts for five years.

This tax exemption expires July 1, 2039.

The other B&O tax exemption is available to a cannabis producer, processor, or retailer who either:

- Obtains the license by transfer or assumption from a licensee in the Cannabis Social Equity program, if the cannabis producer, processor, or retailer who obtains the license also meets the social equity applicant criteria.
- Obtains the license by transfer or assumption from a licensee who meets the social equity applicant criteria and previously received the license by transfer or assumption as described above, if the cannabis producer, processor, or retailer who obtains the license also meets social equity applicant criteria.

This tax exemption begins after the date each eligible cannabis producer, processor, or retailer obtains or assumes the license and lasts for five years.

This tax exemption expires June 30, 2052.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session. However, due to the time it will take to program this bill's changes, the department cannot implement the bill until October 1, 2025.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

REVENUE ESTIMATES:

The revenue impact of this bill is indeterminate because of the lack of data or information on cannabis licensing issuances under the Cannabis Social Equity program.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

The department will implement this bill by October 1, 2025.

FIRST YEAR COSTS:

The department will incur total costs of \$284,000 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 1.27 FTEs.

- Create a special notice and update relevant information on the department's website.
- Gather requirements and attend implementation meetings.
- Set up, program, document, and test computer system changes.
- Respond to data requests and questions, compile statistics, and manage data.
 - Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.

Object Costs - \$107,400.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$23,900 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 0.2 FTE.

- Respond to data requests and questions, compile statistics, and manage data.
 - Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------------------------------|------------------|-----------------|------------------|---------|---------|
| FTE Staff Years | 1.3 | 0.2 | 0.7 | | |
| A-Salaries and Wages | 112,200 | 15,100 | 127,300 | | |
| B-Employee Benefits | 40,500 | 5,500 | 46,000 | | |
| C-Professional Service Contracts | 107,400 | | 107,400 | | |
| E-Goods and Other Services | 18,900 | 2,900 | 21,800 | | |
| J-Capital Outlays | 5,000 | 400 | 5,400 | | |
| Total \$ | \$284,000 | \$23,900 | \$307,900 | | |

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

| Job Classification | Salary | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|--------------------|---------|---------|---------|---------|---------|---------|
| EXCISE TAX EX 2 | 59,844 | 0.2 | 0.1 | 0.2 | | |
| IT B A-JOURNEY | 94,728 | 0.7 | | 0.4 | | |
| IT SYS ADM-JOURNEY | 99,444 | 0.2 | | 0.1 | | |
| TAX POLICY SP 2 | 80,460 | 0.0 | | 0.0 | | |
| TAX POLICY SP 3 | 91,068 | 0.1 | 0.1 | 0.1 | | |
| WMS BAND 2 | 101,410 | 0.0 | | 0.0 | | |
| Total FTEs | | 1.3 | 0.2 | 0.7 | | |

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

| | | |
|-----------------------------|------------------------|--|
| Bill Number: 2037 HB | Title: Cannabis | Agency: 195-Liquor and Cannabis Board |
|-----------------------------|------------------------|--|

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

| ACCOUNT | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|---------|---------|---------|---------|---------|
| Dedicated Cannabis Account-State 315-1 | 74,763 | 126,180 | 200,943 | 236,727 | 235,152 |
| Total \$ | 74,763 | 126,180 | 200,943 | 236,727 | 235,152 |

Estimated Operating Expenditures from:

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|---|-----------|-----------|-----------|-----------|-----------|
| FTE Staff Years | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| Account | | | | | |
| Liquor Revolving Account-State 501-1 | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |
| Total \$ | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |

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: Rachelle Harris | Phone: 360-786-7137 | Date: 03/12/2025 |
| Agency Preparation: Colin O'Neill | Phone: (360) 664-4552 | Date: 04/01/2025 |
| Agency Approval: Aaron Hanson | Phone: 360-664-1701 | Date: 04/01/2025 |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 04/07/2025 |

Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1 (INTENT):

(4) The legislature finds that social equity applicants seeking licensure under the cannabis social equity program have discovered that it is desperately difficult or even impossible to find funding to open licensed cannabis operations. Restrictions against out-of-state investors have effectively blocked these applicants from attracting sufficient investors and have been highlighted as major barriers to the success of the program.

(5) The legislature recognizes that Washington's licensed cannabis industry has been restricted by a state residency requirement for licensees, blocking access to investors from other states, thus putting Washington cannabis licensees at a disadvantage compared to licensees in other states, almost none of which have such barriers to investment capital from other states.

The legislature acknowledges that residency requirements for licensing do not exist in any other industry and is in direct conflict with the dormant commerce clause of the United States Constitution.

(8) The legislature finds that it is urgent and critical to eliminate the state's residency requirement while also providing tax incentives to investors to attract investments for social equity applicants.

(9) The legislature further finds that granting a time-limited tax exemption from the business and occupation tax for cannabis producers, processors, and retailers licensed through the cannabis social equity program, while these licensees start their businesses in the established market, will reduce the unique barriers these businesses are facing relative to other businesses outside and within the licensed cannabis industry. Additionally, also granting a time-limited tax exemption from the business and occupation tax for cannabis producers, processors, and retailers who obtain their license by transfer or assumption of a licensee in the cannabis social equity program, or from a licensee who was transferred or assumed a license from such a licensee, when the new owner or group of owners also meets the social equity applicant criteria, will similarly reduce the unique barriers these businesses will face relative to other businesses outside and within the licensed cannabis industry and will support the goals of the cannabis social equity program.

Section 2 (69.50.325 – cannabis producer, processor and retailer licenses)

(1) The annual fee for issuance and renewal of a cannabis producer's license shall be \$1,381, except the annual renewal fee is \$1,657 for a cannabis producer's license at the next renewal after the licensee submits a change of ownership to the board for an owner who does not lawfully reside in Washington and the board approves of the ownership change, and the annual fee for issuance of a new cannabis producer's license after the effective date of this section is \$1,657 if an owner does not lawfully reside in Washington. Licensed cannabis producers may form agricultural organizations and associations and engage in activities as provided in RCW 19.86.070 and 24.34.010.

(2) The annual fee for issuance and renewal of a cannabis processor's license shall be \$1,381, except the annual renewal fee is \$1,657 for a cannabis processor's license at the next renewal after the licensee submits a change of ownership to the board for an owner who does not lawfully reside in Washington and the board approves of the ownership change, and the annual fee for issuance of a new cannabis processor's license after the effective date of this section is \$1,657 if an owner does not lawfully reside in Washington.

(3)(a) The annual fee for issuance and renewal of a cannabis retailer's license shall be \$1,381, except the annual renewal fee is \$1,657 for a cannabis processor's license at the next renewal after the licensee submits a change of ownership to the board for an owner who does not lawfully reside in Washington and the board approves of the ownership change, and the annual fee for issuance of a new cannabis processor's license after the effective date of this section is \$1,657 if an owner does not lawfully reside in Washington.

(b)(ii) A retail licensee and all other persons or entities with a financial or other ownership interest may not enter into any agreement as referenced in RCW 69.50.395 that confers a financial interest across more than five retail cannabis licenses. For the purposes of this subsection, "financial interest" means 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.

Section 3 (RCW 69.50.331)

(1b)(ii) DELETED - language prohibiting a license from being issued to a sole proprietor who has not legally resided in the state for at least six months prior to applying for license.

(1b)(iii) DELETED – language prohibiting a license from being issued to a partnership, corporation, etc unless all the members thereof are qualified to obtain a license as provided in this section.

(1b)(ii) NEW - “[No license of any kind may be issued to] an entity unless formed under the laws of this state.’

(1c) NEW - If, after reasonable efforts, the board is unable to investigate a nonresident required to be investigated under this section, in accordance with the investigatory standards applicable to the investigation of a state resident, the board may deny a license or license renewal to an entity.

(2) language referring to “disobedience” or “obedience” has been changed to “noncompliance” or “compliance.”

Section 4 (RCW 19.86.070) – MIRRORED IN SECTION 5

For purposes of this section and RCW 24.34.010, and only with respect to licensed cannabis producers, cannabis is considered an agricultural product like other covered agricultural products, and nothing prohibits licensed cannabis producers from forming and operating agricultural organizations authorized under this section or agricultural associations authorized under RCW 24.34.010.

Section 5 (RCW 19.86.070) – MIRROR OF SECTION 4

For purposes of RCW 19.86.070 and this section only, and only with respect to licensed cannabis producers, cannabis is considered an agricultural product like other covered agricultural products.

NEW SECTION. Sec. 6. A new section is added to chapter 82.04 RCW to read as follows: [B&O TAX]

(1) This chapter does not apply to a cannabis producer, processor, or retailer, licensed by the liquor and cannabis board under the cannabis social equity program under RCW 69.50.335, for the five years beginning after the licensee exceeds \$5,000 in sales revenues.

(2) This section expires July 1, 2039.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

Section 2 (69.50.325 – cannabis producer, processor and retailer licenses). The annual fee for issuance and renewal of a cannabis producer, processor, or retailer license shall be \$1,381, except the annual renewal fee is \$1,657 for a cannabis producer's license at the next renewal after the licensee submits a change of ownership to the board for an owner who does not lawfully reside in Washington.

The agency currently has 1,703 total cannabis licensees, and is estimating that 25 percent would make changes, leading to 426 out of state applicants and change requests.

The breakdown is not provided between producer, processor or retailer licenses.

426 licensees paying the higher rate (\$276 variance) = \$117,576 additional revenue each year. There is projected to be a phase-in, of 50% of the 426 applying in FY26 (213), 45% FY27 (192), and the remainder in FY28 (21)

There is a change request fee of \$75 per change.

Total anticipated revenue:

FY26: 213 change requests (\$75 x 213 = \$15,975), 213 total licenses paying the higher rate (\$276 x 213 = \$58,788). Total

\$74,763

FY27: 192 change requests ($\$75 \times 192 = \$14,400$), 405 total licenses paying the higher rate ($\$276 \times 405 = \$111,780$). Total \$126,180

FY28: 21 change requests ($\$75 \times 21 = \$1,575$), 426 total licenses paying the higher rate ($\$276 \times 426 = \$117,576$). Total \$119,151

FY29+: 0 change requests, 426 total licenses paying the higher rate ($\$276 \times 426 = \$117,576$). Total \$117,576

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

BOARD DIVISION

-AGO COSTS:

The Attorney General's Office (AGO) anticipates billing the LCB for legal costs associated with this legislation:

FY26: \$1,044,000

FY27: \$1,443,000

FY28: \$465,000

FY29: \$58,000

FY30+: \$20,000/yr

-OAH COSTS:

The Office of Administrative Hearings anticipates billing the LCB for legal costs associated with this legislation:

FY26: \$825,000

FY27: \$915,000

FY28: \$170,000

-PROJECT COSTS:

The Washington State Liquor and Cannabis Board ("Board") is currently in the middle of a project to upgrade the agency's internal licensing and enforcement systems. The Licensing, Enforcement, Education, and Administrative Data Systems (LEEADS) is expected to go live in FY 2025. There are change request costs associated with this legislation that will have to be submitted to the vendor or contracted out by the LCB. The estimated costs for these change requests is \$80,125 in FY26. Some examples of changes needed follow:

Vendor cost to implement: \$32,965

Business Analyst: 40 hrs x \$150/hr = \$6,000

Developer: 105 hrs x \$392/hr = \$41,160

LICENSING DIVISION:

Considering the longer processing times, complexity, and the necessary steps to ensure an effective regulatory system for the industry, Licensing will require additional staffing:

- Two (2) Licensing Specialist Seniors to fully investigate new applicants under the Social Equity program as well as process assumptions and changes to existing entity structures.

- One (1) Program Specialist 4 to support the increase in adjudicative work related to withdrawals, denials, and appeals.

2.0 FTE Licensing Specialist Senior - \$187,654/yr (\$176,894 salary/benefits, \$10,760 in associated costs). Onetime costs in FY26 of \$12,610 for equipment purchases.

1.0 FTE Program Specialist 4 - \$116,859/yr (\$111,479 salary/benefits, \$5,380 in associated costs). Onetime costs in FY26 of \$6,305 for equipment purchases.

Licensing Assumptions:

- There are currently no restrictions to out of state investors.
- Updates the residency requirements for all producers, processors, and retailers.
 - The agency currently has 1,703 total cannabis, estimating 25 percent would make changes, therefore 426 out of state applicants and change requests. Anticipate starting to receive change requests around August 2025.
 - With the Cannabis Social Equity program window opening, anticipate 2,000 or more applications from both in and out-of-state applicants.
 - Out of state vetting is anticipated to require significantly more work by the Licensing division impacting the time to process change of ownership, transfer or assumptions, and applications. Increased processing times and work requiring additional resources includes, but is not limited to:
 - Harder to pull state background checks. The federal database includes only convictions where a person is fingerprinted and as not all jurisdictions fingerprint, information may be incomplete. It is then necessary to conduct criminal background checks at the local level. Each state has a slightly different type of local criminal background system making it more difficult for the Board to determine who to work with for necessary information.
 - Licensing may not have the level of local authority input on individual applicants to aid in appropriate decision-making including threats to public safety that may require the denial of an applicant.
 - Licensing investigations will also be impacted by the inability to gain information about a business entity's make-up as not all states have open and easily accessible business information, including capturing who the principals are in the entity structure.
 - When determining vertical integration (three-tier system), Licensing Specialist Seniors will be challenged by the lack of a federal database to be able to confirm an individual is not involved with an entity from a different tier in another state.
 - The financial investigations will be more complex and lengthier. Agency experience with out-of-county entities in liquor licensing includes receiving financial statements in other languages requiring translation.
 - Allows Licensing, after reasonable efforts, to deny a license or license renewal if unable to investigate a nonresident.
 - Licensing anticipates increased adjudication work as the result of this bill and will require staffing to support. (See notes under OAH/AAG costs below.)
 - Provides time-limited tax exemption through DOR for social equity retailers, producers, and processors.
 - Increases the annual renewal fee to \$1,657 for an owner who does not lawfully reside in Washington for each location. Applies to all licensees, it is not limited to social equity licensees.
 - Includes language that ownership interest across more than five retail cannabis licensees, regarding negotiating or coordinating purchases of product, operation control, profit sharing, marketing and advertising costs or sharing employment and hiring decisions. Licensing already reviews contracts.
 - Anticipate participating in rulemaking.
 - Would need to update materials and website content to reflect changes.

ENFORCEMENT DIVISION:

The Washington State Liquor and Cannabis Board ("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.

The anticipated workload from this bill is derived from complex investigations, an increase in the number of background checks run, and the workload associated with those checks.

Please see the attached "2037 HB Cannabis out of state ownership - Enforcement Field Increment Calculator" for the workload calculations.

0.2 FTE LCB Enforcement Officer 2 - \$28,346/yr (\$23,732 salary/benefits, \$4,614 in associated costs).

1.0 FTE Program Specialist 3 - \$109,929/yr (\$104,549 salary/benefits, \$5,380 in associated costs). Onetime costs in FY26 of \$6,305 for equipment purchases.

Background check costs (fees charged to the agency): \$46,142/year.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|-----------------|--------------------------|-------|-----------|-----------|-----------|-----------|-----------|
| 501-1 | Liquor Revolving Account | State | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |
| Total \$ | | | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |

III. B - Expenditures by Object Or Purpose

| | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| FTE Staff Years | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| A-Salaries and Wages | 302,247 | 302,247 | 604,494 | 604,494 | 604,494 |
| B-Employee Benefits | 114,407 | 114,407 | 228,814 | 228,814 | 228,814 |
| C-Professional Service Contracts | | | | | |
| E-Goods and Other Services | 2,018,101 | 2,426,556 | 4,444,657 | 830,112 | 177,112 |
| G-Travel | 2,520 | 2,520 | 5,040 | 5,040 | 5,040 |
| J-Capital Outlays | 26,000 | 1,200 | 27,200 | 2,400 | 2,400 |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| Total \$ | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |

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 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|-----------------------------|--------|---------|---------|---------|---------|---------|
| LCB Enforcement Officer 2 | 86,712 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Licensing Specialist Senior | 62,892 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Program Specialist 3 | 76,608 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Program Specialist 4 | 82,512 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total FTEs | | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |

III. D - Expenditures By Program (optional)

| Program | FY 2026 | FY 2027 | 2025-27 | 2027-29 | 2029-31 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| Board Division (010) | 1,949,125 | 2,358,000 | 4,307,125 | 693,000 | 40,000 |
| Licensing Division (050) | 323,428 | 304,513 | 627,941 | 609,026 | 609,026 |
| Enforcement Division (060) | 190,722 | 184,417 | 375,139 | 368,834 | 368,834 |
| Total \$ | 2,463,275 | 2,846,930 | 5,310,205 | 1,670,860 | 1,017,860 |

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

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

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

| Enforcement Field Increment (FI) Calculator | | | | | | |
|---|------------------|--------------------------------|-----------------|----------------|---------|------------|
| 2037 HB "Cannabis Ownership" | | | | | | |
| | Number of events | Time Factor | Staffing Factor | FI Total | Officer | Consultant |
| Complex Investigations | 12 | 40 | 1.3 | 624 | 624 | |
| | | | | | | |
| | | | Total FI's | 624 | 624 | 0 |
| Complex Investigations (# per year) | 12 | Total Field Increments per FTE | | 4,220 | 4,220 | 4,220 |
| | | | | FTE's required | 0.15 | 0.15 |
| Out of state background checks | | Round | | 0.20 | 0.20 | 0.00 |

| Out of state background checks | |
|-------------------------------------|-------------|
| Projected increase (20% of current) | 1551 |
| fee charged to the agency per check | \$29.75 |
| Total Cost of background check fees | \$46,142.25 |

| Increased CHRI unit background check workload | |
|--|-------------|
| Projected increase (20% of current) | 1551 |
| Increased time factor due to out of state checks (75%) | 1163 |
| TOTAL Difficulty factor | 2714 |
| Percentage change in work load | 61% |
| FTE required | .61 FTE PS3 |
| Round FTE (Program Specialist 3) | 1.0 FTE PS3 |



Multiple Agency Ten-Year Analysis Summary

| | |
|--------------------|--------------|
| Bill Number | Title |
| 2037 HB | Cannabis |

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

Estimated Cash Receipts

| | Fiscal Year 2026 | Fiscal Year 2027 | Fiscal Year 2028 | Fiscal Year 2029 | Fiscal Year 2030 | Fiscal Year 2031 | Fiscal Year 2032 | Fiscal Year 2033 | Fiscal Year 2034 | Fiscal Year 2035 | 2026-35 TOTAL |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------|
| Office of Attorney General | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of Administrative Hearings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Department of Revenue Indeterminate Impact | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liquor and Cannabis Board | 58,788 | 111,780 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 1,111,176 |
| Total | 58,788 | 111,780 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 1,111,176 |



Ten-Year Analysis

| | | |
|-------------------------------|--------------------------|---|
| Bill Number 2037 HB | Title Cannabis | Agency 100 Office of Attorney General |
|-------------------------------|--------------------------|---|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☒ **No Cash Receipts** ☐ **Partially Indeterminate Cash Receipts** ☐ **Indeterminate Cash Receipts**

| Name of Tax or Fee | Acct Code | | | | | | | | | | | |
|--------------------|-----------|--|--|--|--|--|--|--|--|--|--|--|
|--------------------|-----------|--|--|--|--|--|--|--|--|--|--|--|

| | | |
|-----------------------------------|-----------------------|-----------------------------|
| Agency Preparation: Dave Merchant | Phone: 360-753-1620 | Date: 3/25/2025 11:42:46 an |
| Agency Approval: Leah Snow | Phone: 360-586-2104 | Date: 3/25/2025 11:42:46 an |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 4/7/2025 1:26:52 pm |



Ten-Year Analysis

| | | |
|-------------------------------|--------------------------|--|
| Bill Number 2037 HB | Title Cannabis | Agency 110 Office of Administrative Hearings |
|-------------------------------|--------------------------|--|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☒ **No Cash Receipts** ☐ **Partially Indeterminate Cash Receipts** ☐ **Indeterminate Cash Receipts**

| Name of Tax or Fee | Acct Code | | | | | | | | | | | |
|--------------------|-----------|--|--|--|--|--|--|--|--|--|--|--|
|--------------------|-----------|--|--|--|--|--|--|--|--|--|--|--|

| | | |
|----------------------------------|-----------------------|----------------------------|
| Agency Preparation: Pete Boeckel | Phone: 360-407-2730 | Date: 3/26/2025 8:56:19 am |
| Agency Approval: Rob Cotton | Phone: 360-407-2708 | Date: 3/26/2025 8:56:19 am |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 4/7/2025 1:26:52 pm |



Ten-Year Analysis

| | | |
|-------------------------------|--------------------------|--|
| Bill Number 2037 HB | Title Cannabis | Agency 140 Department of Revenue |
|-------------------------------|--------------------------|--|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☒ **Indeterminate Cash Receipts**

Estimated Cash Receipts

| Name of Tax or Fee | Acct Code | | | | | | | | | | | |
|--------------------|-----------|--|--|--|--|--|--|--|--|--|--|--|
| Total | | | | | | | | | | | | |

Biennial Totals

Narrative Explanation (Required for Indeterminate Cash Receipts)

CURRENT LAW:

A cannabis license may not be issued to a person doing business as a sole proprietor who has not resided in Washington for at least six months prior to applying for a license. The annual license renewal fee for a Washington state cannabis producer, processor, or retailer is \$1,381.

No business and occupation (B&O) tax exemptions exist for cannabis businesses.

PROPOSAL:

This bill removes the Washington residency requirement for cannabis licensees. The bill also creates an out-of-state annual cannabis license renewal fee different from the in-state annual cannabis license renewal fee. The annual license fee for an out-of-state cannabis producer, processor, or retailer is \$1,657.

This bill provides two exemptions from B&O tax for cannabis producers, processors, or retailers who will obtain licenses with the Liquor and Cannabis Board (LCB) under Cannabis Social Equity program.

One exemption begins when the licensee exceeds \$5,000 in sales and lasts for five years.

This tax exemption expires July 1, 2039.



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|----------|---------------------------|
| 2037 HB | Cannabis | 140 Department of Revenue |

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

The other B&O tax exemption is available to a cannabis producer, processor, or retailer who either:

- Obtains the license by transfer or assumption from a licensee in the Cannabis Social Equity program, if the cannabis producer, processor, or retailer who obtains the license also meets the social equity applicant criteria.
- Obtains the license by transfer or assumption from a licensee who meets the social equity applicant criteria and previously received the license by transfer or assumption as described above, if the cannabis producer, processor, or retailer who obtains the license also meets social equity applicant criteria.

This tax exemption begins after the date each eligible cannabis producer, processor, or retailer obtains or assumes the license and lasts for five years.

This tax exemption expires June 30, 2052.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session. However, due to the time it will take to program this bill's changes, the department cannot implement the bill until October 1, 2025.

REVENUE ESTIMATES:

The revenue impact of this bill is indeterminate because of the lack of data or information on cannabis licensing issuances under the Cannabis Social Equity program.

| | | |
|------------------------------------|-----------------------|----------------------------|
| Agency Preparation: Van Huynh | Phone: 360-534-1512 | Date: 3/17/2025 4:59:32 pm |
| Agency Approval: Marianne McIntosh | Phone: 360-534-1505 | Date: 3/17/2025 4:59:32 pm |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 4/7/2025 1:26:52 pm |



Ten-Year Analysis

| | | |
|-------------------------------|--------------------------|--|
| Bill Number 2037 HB | Title Cannabis | Agency 195 Liquor and Cannabis Board |
|-------------------------------|--------------------------|--|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☐ **Indeterminate Cash Receipts**

Estimated Cash Receipts

| Name of Tax or Fee | Acct Code | Fiscal Year 2026 | Fiscal Year 2027 | Fiscal Year 2028 | Fiscal Year 2029 | Fiscal Year 2030 | Fiscal Year 2031 | Fiscal Year 2032 | Fiscal Year 2033 | Fiscal Year 2034 | Fiscal Year 2035 | 2026-35 TOTAL |
|--|-----------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cannabis producer/processor/retailer license fee | 315 | 58,788 | 111,780 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 1,111,176 |
| Total | | 58,788 | 111,780 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 117,576 | 1,111,176 |
| Biennial Totals | | 170,568 | | 235,152 | | 235,152 | | 235,152 | | 235,152 | | 1,111,176 |

Narrative Explanation (Required for Indeterminate Cash Receipts)

Section 2 (69.50.325 – cannabis producer, processor and retailer licenses). The annual fee for issuance and renewal of a cannabis producer, processor, or retailer license shall be \$1,381, except the annual renewal fee is \$1,657 for a cannabis producer's license at the next renewal after the licensee submits a change of ownership to the board for an owner who does not lawfully reside in Washington.

The agency currently has 1,703 total cannabis licensees, and is estimating that 25 percent would make changes, leading to 426 out of state applicants and change requests.

The breakdown is not provided between producer, processor or retailer licenses.

426 licensees paying the higher rate (\$276 variance) = \$117,576 additional revenue each year. There is projected to be a phase-in, of 50% of the 426 applying in FY26 (45% FY27 (192), and the remainder in FY28 (21)



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|----------|-------------------------------|
| 2037 HB | Cannabis | 195 Liquor and Cannabis Board |

| | | |
|-----------------------------------|-----------------------|---------------------------|
| Agency Preparation: Colin O Neill | Phone: (360) 664-4552 | Date: 4/1/2025 4:52:31 pm |
| Agency Approval: Aaron Hanson | Phone: 360-664-1701 | Date: 4/1/2025 4:52:31 pm |
| OFM Review: Val Terre | Phone: (360) 280-3073 | Date: 4/7/2025 1:26:52 pm |