



PROPOSED RULE MAKING

CR-102 (June 2024) (Implements RCW 34.05.320)

Do **NOT** use for expedited rule making

Agency: Washington State Liquor and Cannabis Board

Original Notice

Supplemental Notice to WSR _____

Continuance of WSR _____

Preproposal Statement of Inquiry was filed as WSR 23-06-079 ; or

Expedited Rule Making--Proposed notice was filed as WSR _____; or

Proposal is exempt under RCW 34.05.310(4) or 34.05.330(1); or

Proposal is exempt under RCW _____.

Title of rule and other identifying information: (describe subject) Rulemaking to amend WAC 314-55-096 concerning vendor, educational, and internal quality samples.

Hearing location(s):

Date:	Time:	Location: (be specific)	Comment:
September 25, 2024	10:00 A.M.	All public Board activity will be held in a "hybrid" environment. This means that the public will have options for in-person or virtual attendance. The Board room headquarters building in Olympia (1025 Union Avenue, Olympia, WA 98504) will be open for in-person attendance and the public may also login using a computer or a device, or call-in using a phone, to listen to the meeting through the Microsoft Teams application. The public may provide verbal comments during the specified public comment and rules hearing segments. TVW also regularly airs these meetings. Please note that although the Boardroom will be staffed during a meeting, Board members and agency participants may continue to appear virtually.	For more information about Board meetings, please visit https://lcb.wa.gov/Boardmeetings/Board_meetings

Date of intended adoption: No earlier than October 9, 2024 (Note: This is **NOT** the **effective** date)

Submit written comments to:

Name Cassidy West, Policy and Rules Manager

Address PO Box 48030, Olympia WA 98504-3080

Email rules@lcb.wa.gov

Fax 360-704-5027

Other

Beginning (date and time) August 14, 2024, 12:00 PM

By (date and time) September 25, 2024, 12:00 PM

Assistance for persons with disabilities:

Contact Anita Bingham, ADA Coordinator, Human Resources

Phone 360-664-1739

Fax 360-664-9689

TTY 7-1-1 or 1-800-833-6388

Email anita.bingham@lcb.wa.gov

Other

By (date) September 11, 2024

Purpose of the proposal and its anticipated effects, including any changes in existing rules: The proposal aims to amend the regulations regarding vendor, educational, and internal quality samples in WAC 314-55-096 to streamline requirements, reduce the regulatory burden on licensees, and ensure accountability and public safety. The proposed changes are expected to improve efficiency in cannabis sampling processes while maintaining high standards for public safety and product quality. Key changes being proposed are outlined below:

1. **Unified Sample Category - 'Trade Samples':** This category merges vendor and educational samples to reduce regulatory complexity and better align with industry practices.
2. **Representative Sample Sizes:** Ensures that trade samples reflect the smallest marketable product size to accurately represent consumer products, aiding in more informed business decisions.
3. **Quarterly Provision Limits:** Transitioning to quarterly limits accommodates the operational cycles of producers, particularly those with seasonal outdoor production schedules.
4. **Equivalency Standards for Different Product Types:** Standard limits across various product types ensure fair and consistent sampling practices.
5. **Traceability and Recordkeeping:** All trade samples must be documented in the state's traceability system, including detailed records of product type, trade name, and the receiving licensee. This ensures transparency and facilitates compliance monitoring.
6. **Designated Storage Areas:** Trade samples must be stored in designated areas separate from non-sample inventory. This separation is crucial for preventing contamination and ensuring samples are easily identifiable for audit and compliance checks.
7. **Employee Sampling:** Employees of licensees can receive up to 15 trade sample units per calendar quarter. These samples must be used strictly for educational purposes and are not to be used as compensation or incentives.
8. **Limits on Sample Distribution:** Producers can distribute up to 96 trade sample units of cannabis per calendar quarter to processors, allowing comprehensive product assessment. Processors may provide up to 120 trade sample units of various cannabis products to retailers per quarter, facilitating extensive staff training and product familiarization.
9. **Sample Jar Modifications:** Changes include requirements for sample jars to be transparent, allowing customers to view and smell the product. This modification enhances consumer interaction with the product without compromising safety. The proposal also changes requirements for handling useable cannabis when it is no longer needed on display in the sample jar. The rule proposes 2 additional options for retailers: (1) to give the useable cannabis to current employees, which will count towards the employee's allotment; and (2) to dispose the cannabis in accordance with the requirements in WAC 314-55-097. These options are in addition to retailers transferring the cannabis back to the originating processor who provided it, as outlined in the existing rule.

The proposed changes are designed to offer multiple benefits, including, but not limited to:

1. Simplified compliance with standardized sample sizes and reduced administrative burden and overhead costs.
2. Enhanced understanding and education of budtenders regarding cannabis products.
3. More practical and efficient sampling processes that reflect operational realities of the cannabis industry.

Reasons supporting proposal: Rulemaking is needed to update the sampling framework to reflect current industry practices and reduce regulatory burdens while ensuring accountability and public safety. The proposed rule aims to align the sampling regulations more closely with industry realities and operational needs.

Statutory authority for adoption: RCW 69.50.342

Statute being implemented:

Is rule necessary because of a:

- | | | |
|-------------------------|------------------------------|--|
| Federal Law? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Federal Court Decision? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| State Court Decision? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

If yes, CITATION:

Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters: The proposed changes reflect input from various stakeholders, including industry members and public health partners, seeking to balance business needs with public health concerns.

Name of proponent: (person or organization) Washington State Liquor and Cannabis Board

Type of proponent: Private. Public. Governmental.

Name of agency personnel responsible for:

	Name	Office Location	Phone
Drafting Rules Manager	Cassidy West, Policy and	1025 Union Avenue, Olympia, WA 98504	360-878-4235
Implementation Enforcement and Education	Chandra Wax, Director of	1025 Union Avenue, Olympia, WA 9850	360-664-1753

Is a school district fiscal impact statement required under [RCW 28A.305.135](#)? Yes No

If yes, insert statement here:

The public may obtain a copy of the school district fiscal impact statement by contacting:

- Name
- Address
- Phone
- Fax
- TTY
- Email
- Other

Is a cost-benefit analysis required under [RCW 34.05.328](#)?

Yes: A preliminary cost-benefit analysis may be obtained by contacting:

- Name
- Address
- Phone
- Fax
- TTY
- Email
- Other

No: Please explain: : A cost benefit analysis is not required under RCW 34.05.328 because the subject of the proposed rulemaking does not qualify as a significant legislative rule or other rule requiring a cost benefit analysis under RCW 34.05.328(5)(c).

Regulatory Fairness Act and Small Business Economic Impact Statement

Note: The [Governor's Office for Regulatory Innovation and Assistance \(ORIA\)](#) provides support in completing this part.

(1) Identification of exemptions:

This rule proposal, or portions of the proposal, **may be exempt** from requirements of the Regulatory Fairness Act (see [chapter 19.85 RCW](#)). For additional information on exemptions, consult the [exemption guide published by ORIA](#). Please check the box for any applicable exemption(s):

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.061](#) because this rule making is being adopted solely to conform and/or comply with federal statute or regulations. Please cite the specific federal statute or regulation this rule is being adopted to conform or comply with, and describe the consequences to the state if the rule is not adopted.

Citation and description:

This rule proposal, or portions of the proposal, is exempt because the agency has completed the pilot rule process defined by [RCW 34.05.313](#) before filing the notice of this proposed rule.

This rule proposal, or portions of the proposal, is exempt under the provisions of [RCW 15.65.570](#)(2) because it was adopted by a referendum.

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(3). Check all that apply:

- | | |
|---|--|
| <input type="checkbox"/> RCW 34.05.310 (4)(b)
(Internal government operations) | <input type="checkbox"/> RCW 34.05.310 (4)(e)
(Dictated by statute) |
| <input type="checkbox"/> RCW 34.05.310 (4)(c)
(Incorporation by reference) | <input type="checkbox"/> RCW 34.05.310 (4)(f)
(Set or adjust fees) |
| <input type="checkbox"/> RCW 34.05.310 (4)(d)
(Correct or clarify language) | <input type="checkbox"/> RCW 34.05.310 (4)(g)
((i) Relating to agency hearings; or (ii) process requirements for applying to an agency for a license or permit) |

This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(4). (Does not affect small businesses).

This rule proposal, or portions of the proposal, is exempt under RCW .

Explanation of how the above exemption(s) applies to the proposed rule:

(2) Scope of exemptions: Check one.

The rule proposal: Is fully exempt. (Skip section 3.) Exemptions identified above apply to all portions of the rule proposal.

- The rule proposal: Is partially exempt. (*Complete section 3.*) The exemptions identified above apply to portions of the rule proposal, but less than the entire rule proposal. Provide details here (consider using [this template from ORIA](#)):
- The rule proposal: Is not exempt. (*Complete section 3.*) No exemptions were identified above.

(3) Small business economic impact statement: *Complete this section if any portion is not exempt.*

If any portion of the proposed rule is **not exempt**, does it impose more-than-minor costs (as defined by RCW 19.85.020(2)) on businesses?

No Briefly summarize the agency’s minor cost analysis and how the agency determined the proposed rule did not impose more-than-minor costs. Agencies are required to consider costs imposed on business and costs associated with compliance with proposed rules. Agencies are not required under chapter 19.85 RCW to consider indirect costs not associated with compliance.

While the proposed rule simplifies some aspects, such as eliminating the need for special sample unit sizes, they introduce costs related to additional labeling, storage, and enhanced record-keeping requirements. These costs may be partly offset by the elimination of the need for special sample sizes and the simplification of product tracking. Additionally, there may be costs associated with destroying existing sample units that do not comply with new rules, once effective. A transition period of six months will be provided to adjust to the new regulations helping mitigate potential financial impacts on businesses.

Using NAICS code 111918 for cannabis grown in an open field, the US Census North American Industry Classification System (NAICS) describes this code for “This U.S. industry comprises establishments primarily engaged in one of the following: (1) growing crops (except oilseeds and/or grains; vegetables and/or melons; fruits and/or tree nuts; greenhouse, nursery, and/or floriculture products; tobacco; cotton; sugarcane; hay; sugar beets; or peanuts); (2) growing a combination of crops (except a combination of oilseed(s) and grain(s); and a combination of fruit(s) and tree nut(s)) with no one crop or family of crops accounting for one-half of the establishment's agricultural production (i.e., value of crops for market); or (3) gathering tea or maple sap.” The US Census NAICS code description at <https://www.census.gov/naics/?input=cannabis&year=2022&details=111918> identifies cannabis grown in an open field as an example of a business that uses this code.

Using NAICS code 424590 for cannabis merchant wholesalers, the US Census NAICS describes this code for “This industry comprises establishments primarily engaged in the merchant wholesale distribution of farm products (except grain and field beans, livestock, raw milk, live poultry, and fresh fruits and vegetables).” The US Census NAICS code description at <https://www.census.gov/naics/?input=cannabis&year=2022&details=424590> identifies cannabis merchant wholesalers, as an example of a business that uses this code.

LCB applied the North American Industry Classification System (NAICS) codes 453998 for marijuana stores. The industry descriptions for these codes is presented in the table below, and can be accessed at <https://www.census.gov/library/publications/2017/econ/2017-naics-manual.html>.

LCB applied a default cost when analyzing whether the rules would have a disproportionate impact on small businesses as defined in RCW 19.85.020(3). Per RCW 19.85.020(2), a minor cost means a cost per business that is less than three-tenths of one percent of annual revenue or income, or one hundred dollars, whichever is greater, or one percent of annual payroll.

According to Department of Revenue data from 2023, the total gross business income for NAICS code 459991 was \$647,617,610 for 493 businesses. That produces an average annual gross business income of \$1,313,625.98. Three-tenths of one percent of \$1,313,625.98 is \$3,940.877, rounding up to \$3,940.88.

The remainder of the data is provided by reference to the minor-cost threshold calculator provided by the Office of Regulatory Innovation & Assistance available at https://www.oria.wa.gov/Portals/oria/VersionedDocuments/RFA/Regulatory_Fairness_Act/Minor-Cost-Threshold-Calculator.xlsx

2022 Industry NAICS Code	Estimated Cost of Compliance	Industry Description	NAICS Code Title	Minor Cost Estimate	1% of Avg Annual Payroll (Threshold)	0.3% of Avg Annual Gross Business Income (Threshold)
111419	\$500.00	Cannabis, grown under cover	Other Food Crops Grown Under Cover	\$3,259.51	\$3,259.51 2021 Dataset pulled from ESD	\$3,195.50 2021 Dataset pulled from DOR

111998	\$500.00	Cannabis, grown in an open field	All Other Miscellaneous Crop Farming	\$11,775.64	\$11,775.64 2021 Dataset pulled from ESD	\$2,882.31 2021 Dataset pulled from DOR
424590	\$500.00	Cannabis merchant wholesalers	Other Farm Product Raw Material Merchant Wholesalers	\$8,809.55	\$3,948.77 2021 Dataset pulled from ESD	\$8,809.55 2021 Dataset pulled from DOR
459991	\$500.00	Marijuana stores, recreational or medical	Tobacco, Electronic Cigarette, and Other Smoking Supplies Retailers	\$3,940.88	Unavailable*	\$3,940.88 2023 Dataset pulled from DOR

As the table demonstrates, the estimated cost of compliance does not exceed the threshold for any of the potential NAICS codes applicable to cannabis licensees. Therefore, implementation of this amended rule is not anticipated to result in more than minor costs on businesses as defined in RCW 19.85.020(2).

Yes Calculations show the rule proposal likely imposes more-than-minor cost to businesses and a small business economic impact statement is required. Insert the required small business economic impact statement here:

The public may obtain a copy of the small business economic impact statement or the detailed cost calculations by contacting:

Name Cassidy West
Address 1025 Union Avenue, Olympia, WA 98504
Phone 360-878-4235
Fax 360-704-5027
TTY 7-1-1 or 1-800-833-6388
Email rules@lcb.wa.gov
Other

Date: August 14, 2024	Signature: Place signature here
Name: David Postman	
Title: Chair	