



Preliminary report

Cannabis Market Study

Suzanna Pratt and Andrew Hatt



Legislative Auditor's conclusion

Washington businesses produced two to three times more cannabis than retailers sold in 2023.

Inaccurate and incomplete data limits the Liquor and Cannabis Board's capacity for data-driven regulation.

2023 Legislature directed JLARC to evaluate Washington's cannabis market

- Review previous canopy studies
- Examine whether production aligns with market demand and capacity
- Estimate impact of ten new producer licenses under the Social Equity in Cannabis Program



Presentation overview

- 1) Overview and canopy
- 2) Estimates and data limitations
- 3) Market conditions
- 4) Social equity program





Initiative 502 legalized recreational cannabis in 2012

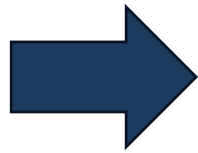
- Liquor and Cannabis Board (LCB) charged with:
 - Establishing regulations
 - Issuing licenses
 - Collecting taxes
- 24 states have legalized recreational cannabis

Three main types of cannabis licenses



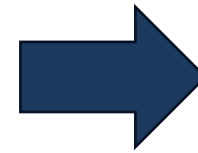
PRODUCERS

Grow and harvest cannabis, sell at wholesale



PROCESSORS

Turn cannabis flower into products

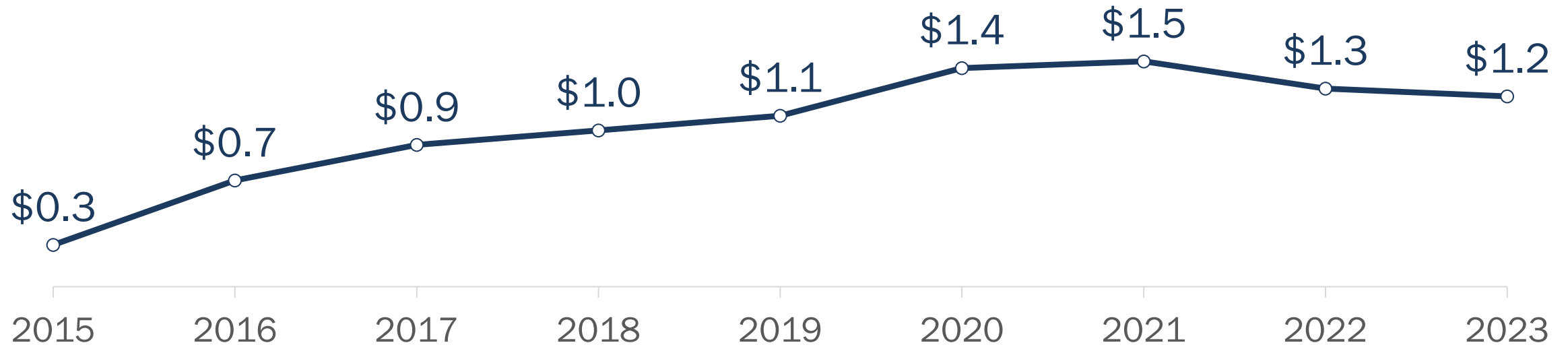


RETAILERS

Sell cannabis products to customers

Retail sales peaked in 2021

Dollars in billions





LCB regulates cannabis production by limiting canopy

Canopy is square footage dedicated to growing cannabis

LCB requires producers to submit a floor plan showing their canopy

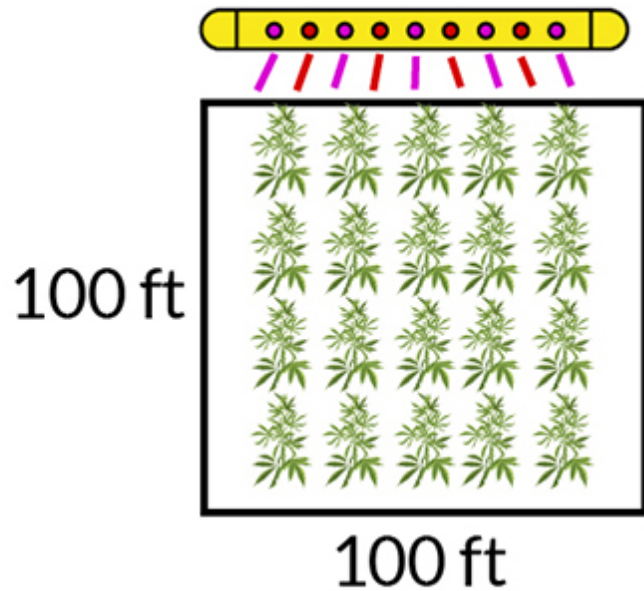


**Canopy
estimates
vary**

Canopy size estimates
range from 4 million to
13.8 million square feet

Canopy is not a measure of the amount harvested

Indoor producers

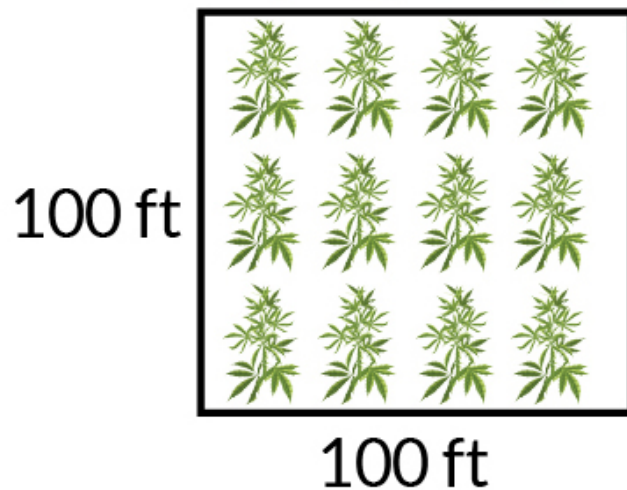


Four to six harvests per year.
Smaller plants spaced closely together.



Canopy is not a measure of the amount harvested

Outdoor producers



One to two harvests per year.
Larger plants spaced farther apart.



A standard measure of cannabis production is grams of dry flower

LCB does not collect reliable harvest data from cannabis producers



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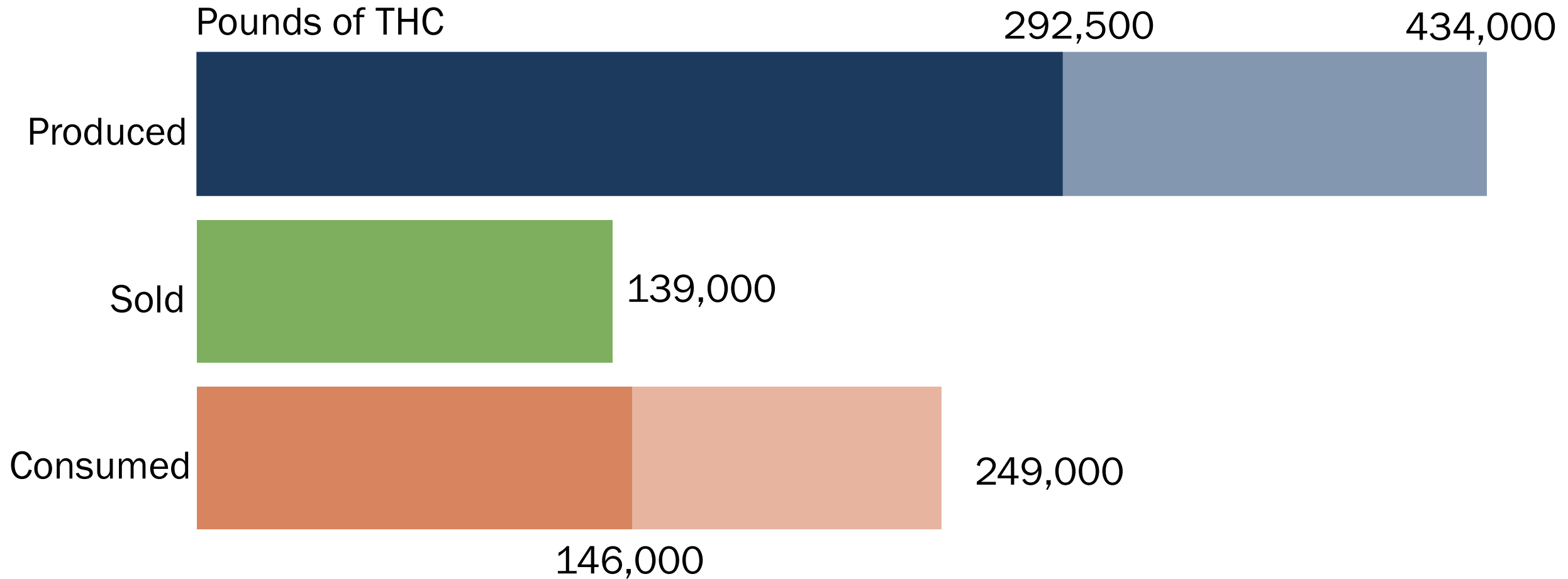
JLARC contracted with RAND to estimate THC produced, sold, and consumed

THC provides common unit of analysis

RAND unable to use data from LCB's cannabis reporting system

2023 estimates include a high level of uncertainty

Production likely 2x-3x higher than sales in 2023





Lack of data limits analysis of overproduction or where it goes

Washington State Institute for Public Policy:

Surplus may be destroyed or diverted in or out of state



LCB's data is insufficient for answering the Legislature's questions

Sales records incomplete

Can't quantify sales

Limited ability to link inventory data and product details

Can't determine the THC content of wholesale or retail products

Weight data for wholesale cannabis is unreliable

Can't determine the amount of flower produced



LCB's data system does not support a data-driven approach to regulation

Promote public safety

Tracking products manually makes it hard to identify products subject to recalls

Verify tax revenue

System does not capture all retail sales, affecting the ability to collect correct tax amounts

Identify diversion

Unreliable inventory data affects the ability to identify and respond to product entering illegal market

LCB plans to replace its cannabis data system by 2031

- LCB will likely continue to have incomplete and unreliable data until then
- 88% of other states use data systems offered by two software vendors





Legislative Auditor's recommendation

LCB should submit a plan to the appropriate committees of the Legislature by December 31, 2025, that details the resources and funding needed to collect accurate data from licensees by December 31, 2026.

The plan should identify the data elements needed to determine production and sales levels and efficiently carry out statutory responsibilities.

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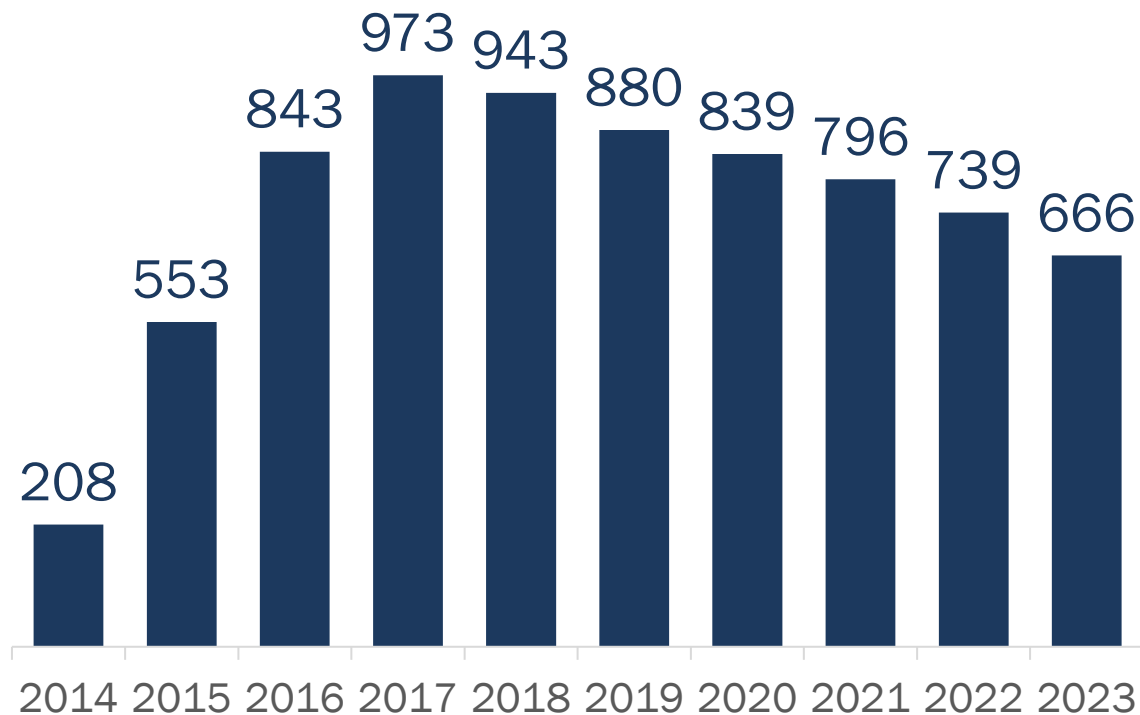


Producers face challenging market conditions

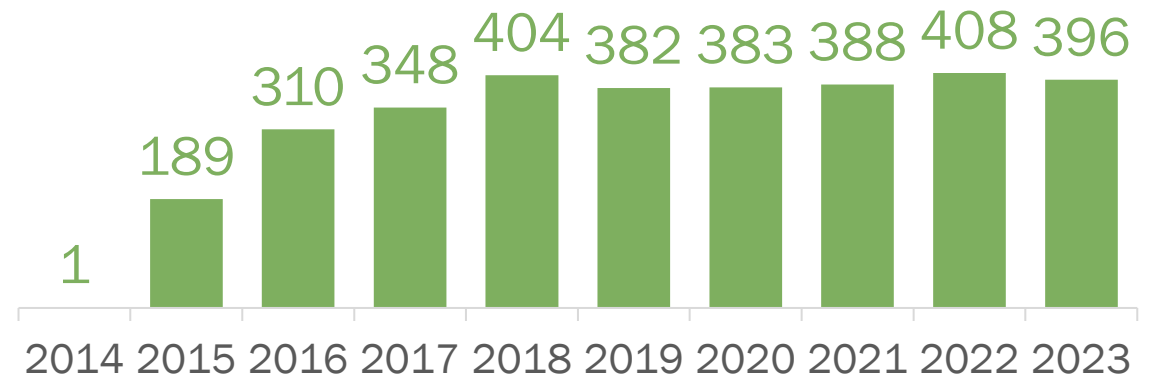
- Oversupply contributes to declining prices
- Other states report oversupply
- The illegal cannabis market competes with the legal market
 - 30-40% of cannabis consumed from sources other than licensed retailers

The number of producer businesses declined by 31.6% since 2017

Producer, producer-processor businesses

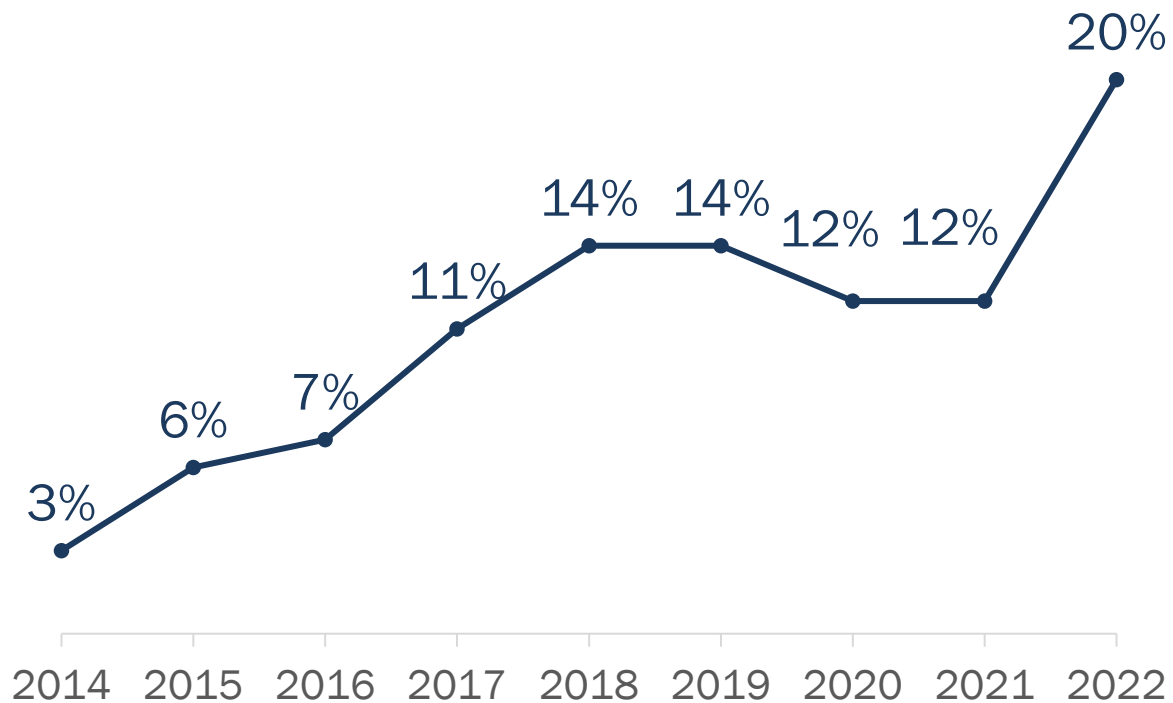


Retail businesses

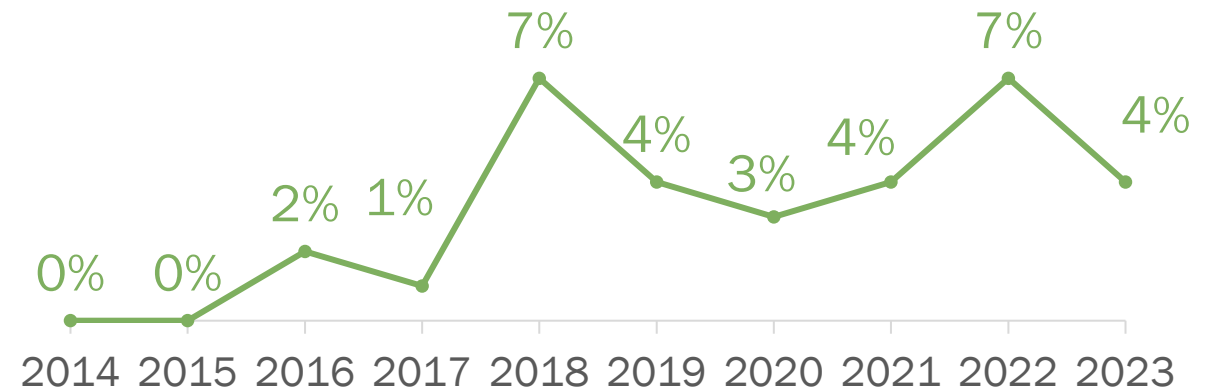


Producer turnover was 11%, compared to 3% for retailers

Producer and producer-processor turnover



Retailer turnover



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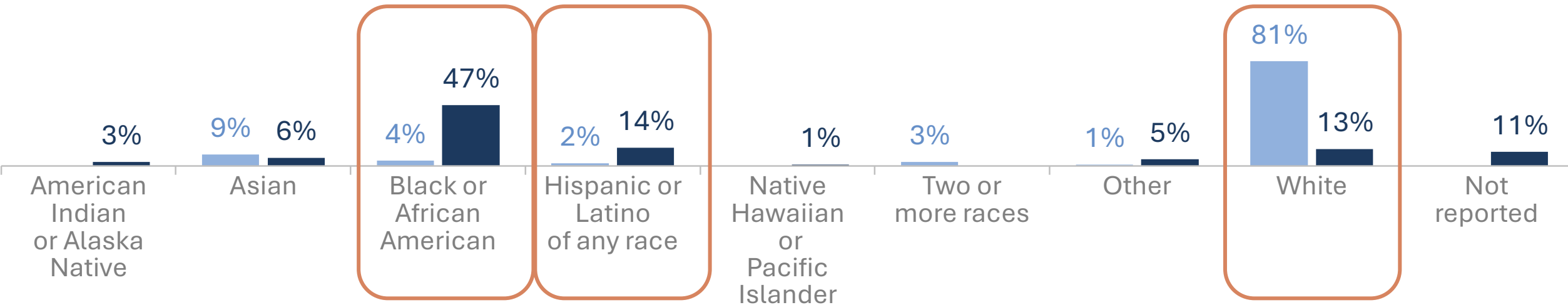
The Legislature created the Social Equity in Cannabis Program in 2020

- Goals are to reduce barriers, promote equity, and increase participation in cannabis industry
- LCB accepted applications for 46 social equity retail licenses in 2023
 - Nine have been issued
- More licenses to be issued in the future, including 10 producer-processor

WA social equity program applicants in 2023 were more diverse than existing licensees in the industry

■ Percent of retailers, 2021

■ Percent of social equity applicants, 2023



New producer licenses will have a minimal effect on cannabis production

Potential to increase statewide canopy by 2.5%

2023 estimated
licensed canopy
12 million square feet

Maximum social
equity canopy
300,000 square feet

Producers licensed through the social equity program face challenging market conditions

- Existing overproduction
- New entrants into an established market
- More accurate data would enable more informed decision-making about the program





Legislative Auditor's recommendation

The Legislature should consider ways to increase social equity in the cannabis industry beyond new producer licenses.

Options presented in a 2022 Social Equity in Cannabis Task Force report and recently proposed legislation.



Next steps

Proposed final report

July 2025

View full report

<https://leg.wa.gov/jlarc/audits>

A photograph of the Washington State Capitol building, featuring a large dome and classical architectural elements, surrounded by green trees and a clear blue sky.

Contact us

Research Analysts

Suzanna Pratt

(360) 786-5106

suzanna.pratt@leg.wa.gov

Andrew Hatt

(360) 786-5187

andrew.hatt@leg.wa.gov

Audit Director

Ryan McCord

(360) 786-5186

ryan.mccord@leg.wa.gov

Legislative Auditor

Eric Thomas

(360) 786-5182

eric.thomas@leg.wa.gov