

State of Washington
Liquor and Cannabis Board
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CONTRACT AMENDMENT

Contract Number:

K430

Date Issued:

November 30, 2015

Amendment Number:

6

Date Effective:

Upon LCB approval

This Contract Amendment is issued under the provisions of the Contract identified above. The changes authorized are within the scope of the original contract. All rights and obligations of the parties shall be subject to and governed by the terms of the original contract including any subsequent amendments, which are hereby incorporated by reference.

PURPOSE OF AMENDMENT

Purpose: The purpose of this amendment, per WSLCB Contract K430, is to provide a time extension for Amendment 4, so that Botec can thoroughly address all issues identified by WSLCB in the draft report. Interlined language has been removed, underlined language is new.

Amendment 4:

Scope: Botec will estimate the current market for medical cannabis in Washington State in absolute terms and as a share of the overall cannabis market.

Deliverables:

1. **Create a Census of Operating Collective Gardens-** Create as complete as possible a census of operating collective gardens by communicating with industry insiders and trade associations, and by using the websites and internet search tools a consumer would use to search for a supplier.
2. **Measure Storefront Linear Footage of a Random Sample of Gardens-** Take a random sample of collective gardens from the census generated, and, using GIS mapping, determine the linear footage of the storefront of each. This will allow a calculation of average storefront linear footage for all gardens in Washington State.
3. **Obtain Storefront Linear Footage and Sales Revenue Data from a Convenience Sample of Gardens-** With the help of medical cannabis industry contacts, solicit data on storefront linear footage and sales revenue from a convenience sample of gardens.
4. **Estimate Market Size as a Function of Sales Revenue per Storefront Linear Foot-** The data gathered in Task 3 will allow the specification of a model that estimates a garden's sales revenue given the linear footage of storefront and geographic location. Applying the model to a random sample of gardens (gathered in Task 2) can determine the sales revenue per storefront linear foot for all collective gardens in Washington State.
5. **Estimate Sales Revenue for the Total Cannabis Market in Washington State-** Using national and Washington-specific survey data, estimate the total cannabis sales revenue for 2015. Starting from the RAND estimate for ONDCP of the total revenue in the national cannabis market, we can calculate Washington's share on a per-capita basis. From survey data and information on pricing, we will adjust for differences between the national average and conditions in Washington (or in the Western Region where state-specific data are unavailable).

As an independent check on that calculation, we will use current prices and survey-determined cannabis consumption per user per month for various categories of users plus the results of the 2013 RAND survey of Washington's cannabis users to estimate total grams and dollars statewide.

6. **Estimate the Medical Market's Share of Total Cannabis Sales-** Task 4 will yield an estimate for total sales from the medical marijuana market. Task 5 will yield an estimate for total sales for all marijuana consumed by Washington State residents. Dividing the estimates for medical cannabis sales by the estimate for the medical market's share of the total market.
7. **Estimate the Medical Market's Share of Total Cannabis Sales-** The tasks set forth above and the resulting report and analyses shall include county-by-county findings and analysis.
8. **Provide County by County Report and Analysis-** The tasks set forth above and the resulting report and analyses shall include county by county findings and analysis.

The Draft and Final Reports shall address the issues identified (by WSLCB) within the initial draft report consistent with the deliverables listed above and per amendment 4:

1. On page 6 of the Draft Report it refers to “tier 3;” the phrase should be corrected to be “priority 3.”
2. How was the \$1.4 billion annual value determined? Did BOTEC use the same price for medical and retail and if not, how is this consistent? Most importantly - What does this tell us about market needs?
3. How was the price for marijuana in medical and retail determined on page 13 of the Draft Report?
4. The LCB is concerned that the number of dispensaries BOTEC has estimated is very much lower than all other estimates we have seen without an adequate reason as to why. Equally concerning, the estimate of product leaving dispensaries also appears low and lacking supporting information (and an adequate consideration of other Medical Dispensary transfer modes in the past – i.e. reduced rate sales).
5. The LCB is concerned that without seeing estimates of the number of patients or the amount of cannabis that went “out the door” for dispensaries, we cannot use this report to estimate the need for additional stores. As we have discussed, many dispensaries provide cannabis to low income or veteran patients for free or reduced rates and the dollar value that is reported in the Draft Report does not reflect any of this. The LCB needs to know both a supportable estimate of the number of patients served and how much cannabis was provided.
6. How did BOTEC estimate \$400 billion in sales if we don’t know what is on the black market? What research did you use to estimate the 18% of illicit production?
7. How did BOTEC identify the 41 dispensaries used in your estimate? Why were there only 2 in the 25 group E counties? The LCB is concerned that 2 outlets for 25 counties appears to be an under representation.
8. Per our discussion of this data/outlier issue: Cesar’s Salad reported being open 161 hours a week, which converts to 23 hours a day. BOTEC discounted that as a reality, but from our understanding of that industry it is possible that they did operate those hours. If using the mean and not the average, what were the lowest numbers of sales that were not used to estimate the market? If that was the only outlet that was not used, does this represent a bias towards lower sales?
9. The LCB wants further clarification on page 13 about the prices on page 13. If the dispensaries charge half as much and made half as much revenue as the retail stores, doesn’t this mean that there is the same market in medical as there is in retail?
10. Please explain more clearly in the report the Monte Carlo Simulation and how the process drives BOTEC’s results in the Draft Report (page 9).

Completion Date: ~~November 10, 2015~~ December 11, 2015

Late Fees/Liquidated damages: This project will not be deemed late until ~~November 30, 2015~~ December 15, 2015. As of ~~November 30th~~ December 15, 2015 and everyday thereafter, until the project is completed per this amendments deliverables, at WSLCB’s satisfaction, a daily liquidated damage fee will be assessed at \$500.00 per day.

All other terms and conditions remain unchanged.

AUTHORIZING SIGNATURES

This contract amendment, consisting of two (2) pages is executed by the persons signing below who warrant that they have the authority to execute this contract amendment.

For Contractor:		For WSLCB:	
_____ <i>(Contractor Authorized Representative Signature)</i> <i>(Date)</i>		_____ <i>(Signature)</i> <i>(Date)</i>	
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