## CITY COUNCIL STUDY SESSION ITEM

## **SUBJECT**

Regulation of Medical Cannabis Gardens and Recreational Marijuana-Related Uses

## STAFF CONTACT

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## **POLICY ISSUES**

- 1) Whether additional direction is needed from Council to the Planning Commission regarding the scope of work for the Commission's consideration of permanent regulations for collective gardens, particularly with respect to zoning.
- 2) Whether Council should consider local regulation of recreational marijuana uses, including zoning, prior to finalization of the state regulations of such uses by the state Liquor Control Board

## FISCAL IMPACT

There will be no fiscal impact resulting from Council's decisions at the present time. Initiative 502 (I-502), legalizing the production, manufacturing and retail sales of recreational marijuana expressly contemplates treating these land uses as lawful business activities. The state of Washington will collect taxes related to these businesses and anticipates that local jurisdictions may also choose to license these businesses and collect local taxes such as B&O tax. Should the City Council determine at a later point in time to require such uses to secure local business licenses and apply B&O tax to their enterprises, some tax revenue may be assumed. However, until such time as the state Liquor Control Board issues licenses for these uses, we will not know how many of these businesses may seek to locate in Bellevue.

There are currently no valid business licensees for medical marijuana collective gardens within Bellevue, and therefore no B&O taxes being collected.

## **DIRECTION NEEDED FROM COUNCIL**

- X Action
- X Discussion
- X Information

After adopting interim regulations of medical cannabis collective gardens and extending those regulations on two separate occasions during 2012 and 2013, the City Council tasked the Planning Commission with holding a public hearing and recommending permanent regulations of these uses. On February 25, 2013 the Council considered guiding principles to assist the Commission in devising recommended permanent regulations. During that discussion, the Council also discussed the passage of I-502, the citizen initiative authorizing the production, processing and retail sales of recreational marijuana, and the need for the Planning Commission to include consideration of zoning for those uses when recommending permanent zoning for medical cannabis collective gardens.

In their first discussion of the proposed regulation of medical cannabis in May 2013, the Planning Commission expressed concern regarding moving forward with recommendations on permanent regulations until the state Liquor Control Board issued rules regarding recreational marijuana uses under I-502. There was general consensus at that meeting that it would be appropriate to suggest to the Council that the Planning Commission should wait for state action on those rules before taking up the question of local regulations.

On July 3, 2013, the State Liquor Control Board ("LCB") issued a second draft of proposed WACs<sup>1</sup>, which are the rules by which the state intends to license and regulate recreational marijuana uses in conformance with I-502, which has now been codified into Ch. 69.50 RCW, the state Uniformed Controlled Substances Act. In a meeting with LCB staff prior to issuance of this draft of the WACs, local governments were urged by the LCB to act on any local regulations, specifically zoning, prior to issuance of any permits by the LCB, which are anticipated to occur before the end of 2013. Furthermore, because the LCB intends to open the application process for recreational marijuana uses in mid-September, it has become clear that we need to accelerate discussions of zoning designations for these uses.

Consequently, in addition to the previously transmitted guiding principles for regulation of medical marijuana collective gardens, direction is needed from Council to the Planning Commission regarding the timeline for continuing forward on finalizing medical cannabis regulations, as well as commencing discussions for consideration of potential zoning designations for the three types of recreational marijuana uses—production, processing and retail sales. A public hearing is scheduled for July 24, 2013 before the Planning Commission, and staff is preparing to present options and make recommendations to the Commission regarding potential zoning designations.

To address recreational marijuana zoning, we propose taking a similar approach to that taken on medical cannabis collective gardens, of bringing interim zoning regulations to Council for consideration in early September, and seeking Council direction to the Planning Commission to discuss and propose final regulations.

## BACKGROUND/ANALYSIS

Initiative 502 was passed by 55.49% of Washington voters participating in the in November 2012 elections. In Bellevue, over 59% of voters approved the initiative.

## The initiative:

• Legalizes the use of marijuana by people 21 years and older. They may possess up to 1 ounce of marijuana, 16 ounces of marijuana-infused product in solid form and 72 ounces of marijuana-infused product in liquid form;

<sup>1</sup> The Washington Administrative Code is commonly referred to as the WACs.

- Specifies that only state-licensed marijuana production, processing and sale of marijuana are permitted;
- Requires licensed facilities to be at least 1,000 feet from schools, playgrounds, recreation centers, child care centers, public parks, public transit centers, libraries and arcades;
- Limits signage to a maximum of one that is no larger than 11 square feet in area;
- Prohibits retail facilities from:
  - o Displaying marijuana or marijuana products so they are visible from the public right-of-way;
  - o Selling anything other than marijuana, marijuana-infused products and paraphernalia.
- Prohibits, for all recreational marijuana facilities, the following activities:
  - o Advertising, in any medium, within 1,000 feet of any school, playground, recreation center, child care center, public park, transit center, library or arcade
  - o Advertising on publically-owned or- operated property or within a public transit vehicle or shelter; and
- •Prohibits on-premises consumption; and
- •Establishes a standard for driving under the influence of marijuana.

I-502 requires that the state Liquor Control Board draft and approve rules for the licensing and regulation of recreational marijuana uses. The LCB staff has been working on these rules for several months, and on July 3, 2013, published draft rules for introduction to the Board and for public comment at hearings to be held in August 2013. The LCB anticipates adoption of the rules, codified in the WAC in late August or early September, to take effect 30 days later.

With the passage of I-502, there has been some confusion about the interplay between medical cannabis collective gardens and I-502. A general misconception has been that the passage of I-502 effectively rendered the regulation of medical cannabis collective garden uses unnecessary. I-502, however, did not repeal or amend the Medical Cannabis Act, Chapter RCW 69.51A RCW. There was also some general confusion about the role of the LCB and the potential scope of regulations of recreational cannabis businesses. Despite the passage of I-502, the LCB anticipates continuation of medical cannabis collective gardens (and in some cities, dispensaries) in part because that activity is not taxed in the manner of recreational marijuana, and because patients can access significantly greater quantities of marijuana in a single transaction. The LCB had introduced a bill in the legislature to synch up the taxation of medical cannabis uses with recreational marijuana uses during this past legislative session, however that bill was not acted on due to the prolonged budget debates. While the LCB or others may seek to introduce new medical cannabis legislation in the next legislative session, there is no guarantee that the bill would draw a sponsor, or get a hearing to secure passage.

## LICENSE RULES AND TAXES

I-502 imposes a 25% excise tax at each transaction point (producer to processor, processor to retailer, and retailer to consumer) but local governments will not receive any of the excise tax revenues. Local governments will receive sales tax revenue that will be collected on retail sale of marijuana in the same way they do for all retail sales.

State license applicants will have to pay a \$250 license application fee and a \$1,000 license issuance fee. After that, an annual renewal fee of \$1,000 will be required. A separate license will be required for each facility location. Licensed producers and processors may not have a direct or indirect financial interest in a licensed retailer. While a licensee may hold both a producer and a processor license, holders of a producer license and/or a processor license may not also hold a retailer license.

Eventually, the LCB will set a maximum number of retail licenses that can be issued in each county. The limits will be based on population and access to product. At this time it is not possible to predict how many retail licenses will be allowed for King County. The licensing procedure will include a requirement that local jurisdictions be notified of any application for a marijuana facility within their boundaries and will provide a process to object to issuance of the license. The process will be similar to what's in place for liquor licenses.

As noted above, the state Liquor Control Board issued preliminary draft rules for the regulation of licensing recreational marijuana uses in May 2013 and sought feedback from local government, potential licensees and the general public.

After taking in over 1,000 comments, the LCB made some modifications to the proposed rules and filed them with the Code Reviser. Attached is a publication from the LCB entitled "Proposed Rules Highlights" dated July 3, 2013, describing the LCB's responsibilities and timeline for these regulations and providing brief "highlights" of these draft rules.

In conversations with LCB staff, local governments specifically discussed the interplay between state and local regulatory authority. LCB staff made clear to city representatives that it would emphasize for potential applicants the requirement that their proposed recreational marijuana businesses must comply with all applicable local regulations. They also made clear to city representatives that they would convey to applicants any objections that local governments have to license applications, such as objections that the proposed business location is not zoned for such uses, and that the issuance of a license will not be a guarantee of the ability to operate in a given location. The LCB staff urged cities to adopt zoning regulations to guide potential applicants and help inform the LCB on issues with potential business sites. The LCB will not deny a license based upon a zoning issue, as they view that as the sole responsibility of the local jurisdiction, meaning that it will leave responsibility for enforcing local zoning regulations against any licensee who attempts to open a business to cities and counties.

Based on the LCB's stated rule-making schedule, there is insufficient time for the City to pursue enactment of permanent zoning regulations in the manner generally employed under the Land Use Code of delegating consideration of proposed zoning to the Planning Commission for a public hearing and recommendation to the Council prior to finalization of the LCB's proposed rules. We are therefore recommending that we again employ the alternative process provided for in the Land Use Code that we utilized for the interim medical cannabis collective garden regulations. This would involve staff developing recommendations for Council to consider as interim zoning regulations to be presented for Council action in early September. Under GMA, within 60 days of adoption of any interim zoning, Council would be required to hold a public hearing on the interim regulations. As with the interim regulations for medical cannabis collective gardens, we would then ask Council to adopt guiding principles and forward them to the Planning Commission for consideration of proposed permanent regulations.

Since the Planning Commission will be holding a public hearing on June 24 regarding proposed permanent medical cannabis collective gardens, including zoning regulations, we will be presenting the Planning Commission with information regarding potential zoning locations for the recreational marijuana uses, and comparing them with the zoning proposed for medical cannabis collective gardens. This will provide the Planning Commission with some advance context for the later consideration of permanent zoning regulations for recreational marijuana uses.

## **RECOMMENDATION**

- 1) Provide direction to the Planning Commission to continue with consideration of proposed permanent medical cannabis collective gardens and zoning, including consideration of potential zoning for recreational marijuana uses to provide context for the collective garden zoning; and
- 2) Provide direction to staff to bring forward proposed interim zoning regulations for recreational marijuana uses in early September for consideration by Council prior to finalization of LCB rules.

## **ATTACHMENTS**

Proposed Rules Highlights from WSLCB Frequently Asked Questions about the I-502 Proposed Rules

## **Proposed Rules Highlights**

July 3, 2013

## **LCB Rulemaking Objective**

- o Creating a tightly controlled and regulated marijuana market;
- o Including strict controls to prevent diversion, illegal sales, and sales to minors; and
- o Providing reasonable access to products to mitigate the illicit market.

## LCB Role and Responsibility

- Ensuring public safety is the top priority;
- Creating a three-tier regulatory system for marijuana;
- Creating licenses for producers, processors, and retailers;
- Enforcing laws and rules pertaining to licensees; and
- Collecting and distributing taxes.

## **Timeline**

December 6, 2012	Effective date of new law
May 16, 2013	Draft rules sent to stakeholders for input and vetting
July 03 2013	Proposed rules filed with Code Reviser (CR 102)
August 6-8, 2013	Public hearings on proposed rules
August 14, 2013	Rules adopted
September 16, 2013	Rules become effective
September 16, 2013	Begin accepting applications for all three licenses (30-day window)
December 1, 2013	Rules are complete (as mandated by law)
Dec. 2013 / Jan. 2014	Begin issuing producer, processor and retailer licenses

## **Proposed Rules Highlights**

## **License Requirements**

- 30 day window
  - o The LCB will open registration for all license types for a 30 calendar day window (mid-September)
  - o LCB may extend the time or reopen application window at its discretion

## State Residency Requirement

I-502 requires a three month state residency requirement (all license structure types)

## Background Checks

- Personal criminal history form with license forfeiture if incomplete or incorrect
- Fingerprinting of all potential licensees
- o Background checks of license applicants and financiers

## Point System

- The LCB will apply a disqualifying point system similar to liquor
- Rules allow exceptions for two misdemeanor convictions of possession w/in three years

## Costs and Fees

- o \$250 application fee
- o \$1,000 annual renewal fee
- Additional fees for background check and filing for local business license

#### Taxes

 License applicants must submit a signed attestation that they are current on taxes owed to the Washington State Department of Revenue.

## **Public Safety**

#### Producer Structures

Rules allow producer operations in secure: indoor and outdoor grows as well as greenhouses

## Traceability

- LCB will employ a robust and comprehensive traceability system (software) that will trace product from seed/clone to sale.
- o LCB enforcement can match records to actual product on hand.

## Background Checks

- Personal criminal history form
- Fingerprinting of all potential licensees
- WSP and FBI back background checks of licensees and financiers

## Point System

LCB will apply a disqualifying point system similar to liquor (exceptions for possession)

## Violation Guidelines / Standard Administrative Procedures Act Guidelines

- \$1,000 criminal penalty for sales to a minor
- Sets strict tiered system of violation record over a three year period
  - Group 1 public safety:
    - First violation: 10 day suspension or \$2,500
    - Second violation: 30 day suspension
    - Third violation: license cancellation

## Child Resistant Packaging

Specific requirements for marijuana and marijuana-infused products in solid and liquid forms

#### Security and Safeguards

- Alarm and surveillance video camera requirements (including minimum pixels and lockbox encasement)
- Strict transportation and record keeping requirements (no third party transport of product)
- O Hours of operation limited to 8:00 a.m. to 12:00 a.m.

#### Advertising Restrictions

 Law restricts advertising within 1,000 feet of schools, public parks, transit centers, arcades, and other areas where children are present.  May not contain statements or illustrations that: is false or misleading, promotes over consumption, represents that the use of marijuana has curative or therapeutic effects, depicts a child or may be appealing to children.

## • Limits on Retail Stores

- LCB to provide advance notice to local authority
- Per I-502, LCB to determine number of retail outlets per county
  - LCB to hold county-by-county lottery accounting for population distribution
  - BOTEC Analysis Corporation determining county consumption levels.
    - Consumption will drive number of retail outlets.

## **Consumer Safety**

## Behind the counter storage

- No open containers or handling of product
- Sniff jars with sealed, screened-top lids allowed

## Strict packaging and label requirements

- Limited servings and concentration per package
- o Lot number
- Warning label
- Net weight
- Concentration of THC and five other cannabinoids
- Usage warnings (specific warning for ingestible foods/liquids about effect delays)
- Upon request
  - Third party lab that tested lot and results
  - All pesticides, herbicides, fungicides found in product

## Defined Serving Size

- Defined serving sizes on marijuana-infused product label
  - 10 mg of THC per serving
  - 100 mg of THC per product

## • Lab Tested and Approved (monograph)

- All lots will be tested by independent accredited labs
- Established and uniform testing standards

## • Store Signage and Product Warnings

- No minors allowed in stores
- Required product and usage signs within stores

For more information regarding Initiative 502, please visit the Liquor Control Board website at www.liq.wa.gov.

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## Frequently Asked Questions about the I-502 Proposed Rules

**Topic:** Initiative 502 **Date:** July 3, 2013

## Licensing

## When can I get my license?

We will begin accepting applications for all three license types (producer, processor and retailer) for 30 days on September 16, 2013 and expect to begin issuing licenses, at the earliest, in December 2013. Due to the anticipated turnout and rush to obtain a license it is possible that the process may take longer than the projected 90 days. The best way to stay up to date on the implementation process and when the applications become available is to register for email notifications on the WSLCB website.

## Why are you only accepting applications for 30 days?

Opening up the licensing window for 30 days affords anyone who is qualified to apply for a license the opportunity to do so. Whether you are a small grower or larger company you will be given the same opportunity to get a license. Closing the window after 30 days allows the Board the opportunity to assess the market and see what changes, if any, are needed regarding the number of licenses. The Board may also reopen the window at its discretion.

#### How many producer and processor licenses will be issued?

Presently the WSLCB does not intend to limit the amount of producer or processor licenses it will issue. The LCB will open a 30 day window in September where anyone can apply, and qualified applicants will receive licenses.

## How many retail licenses will be issued?

The number of retail locations will be determined using a formula that distributes the number of locations proportionate to the most populous cities within each county. Locations not assigned to a specific city will be at large. Once the number of locations per city and at-large have been identified, the specific locations will be selected by lottery in the event the number of applications exceeds the allotted amount for the cities and county.

## How will the lottery work?

WSLCB staff are developing the guidelines for the retail license lottery. As more information becomes available we will notify stakeholders via the I-502 Listserv.

# If the local authority objects to my proposed location after filing my application can I move my location without refiling?

Applicants will be able to change the location of a potential license if the local authority objects, as long as the application is still in the processing stage, without filing a new application.

## Will a criminal record impact my ability to get a license?

The WSLCB will employ a disqualifying criminal history point system similar to liquor. An exception would be allowed for two misdemeanor convictions of possession within three years. A felony conviction will prohibit you from obtaining a marijuana license if the conviction was in the last 10 years.

## How do I prove three months residency?

There are many ways to prove residency. Some examples include:

- Get a Washington State driver's license or ID card, which has an issue date on it
- Present three months worth of utility bills, pay stubs, etc.
- Register to vote

You can find out more about state residency requirements at Access Washington.

## How do I show I'm current on my taxes?

Prospective licensees will be required to sign an attestation that they are current on their taxes. Failure to do so or misrepresentation of the status of your taxes is grounds to deny the application.

## Can I get my \$250 application fee back?

Marijuana application fees are non-refundable.

## Is it true that the WSLCB is just going to license current medical marijuana outlets to retail marijuana?

No. Retail licenses will be issued to qualified applicants who meet the licensing criteria. A medical marijuana outlet that wants to convert to a recreational outlet will have to go through the same application process as any other potential applicant. If they were to obtain a retail license they would only be allowed to sell marijuana purchased from the recreational system, they would not be allowed to comingle medical and recreational marijuana.

## Can local jurisdictions prevent me from opening a location?

The LCB has no authority to dictate zoning requirements to local governments. Municipalities could conceivably zone marijuana/related businesses out of their geographical area, check with your local authority to understand their requirements.

Since there are a limited number of retail licenses available can I apply for a retail license and a processor and/or producer license at the same time to ensure that I'm not left out and then withdraw the processor and/or producer license application in the event that I get the retail license?

No. Applicants must decide ahead of time which license type they are pursuing. If an applicant applies for a retail license in addition to one of the other two license types all of the applications will be rejected.

#### Can I be a processor and a producer?

Yes. Licensees may hold a both a producer and processor license together.

## Is there a producer/processor license?

No. Applicants must apply for, and obtain, both licenses separately and must pay the application and renewal fees on both licenses.

Do I have to pay the 25% tax on sales between producer and processor if I hold both licenses? No. If you hold a producer/processor license you avoid the 25% tax that would be applied to a producer to processor sale.

## Do I have to provide proof from my landlord that they are aware of how their property is being used?

No. The provision requiring an applicant to provide a signed affidavit showing their landlord is aware of the marijuana related business using their property has been removed.

## There is a bus stop in front of my location; will that disqualify me from getting a license?

The rules define "public transit center" as a facility located outside of the public right-of-way that is owned and managed by a transit agency or city, county, state, or federal government for the express purpose of staging people and vehicles where several bus or other transit routes converge.

#### Can I have multiple locations?

Yes. However each location must be licensed separately and the licensee must meet the previously mentioned requirements on license types.

How will the WSLCB measure distance from a restricted area to a potential marijuana location? I-502 directs the WLCB to measure, in a straight line, from the perimeter of a restricted area to the perimeter of a potential location.

## If I'm providing financial backing do I have to be a resident?

Yes. Financiers will be required have three months Washington state residency and to pass the same criminal background checks as a licensee.

## **Testing**

## How can I get my laboratory certified to test marijuana?

The LCB will contract (via the request for proposals process) with a firm who will be responsible for accrediting labs.

## How will I get my products tested?

The LCB will furnish a list, via our website, of accredited labs for producers to contract with for testing services.

## Traceability/Product

## What is the traceability system?

A robust and comprehensive traceability software system will that will trace product from start to sale. Licensees will have to use tracking software that is compatible with LCB's traceability system and allows the LCB to monitor and track any plant at any time.

## When do my plants need to be entered into the traceability system?

Prior to reaching eight inches in height or width each plant must be tagged and tracked individually

#### How do I obtain startup inventory?

Within fifteen days of starting production operations a producer must have all non-flowering marijuana plants physically on the licensed premises and recorded into the traceability system. No flowering marijuana plants may be brought into the facility during this fifteen day timeframe. After the 15 days pass, a producer may only start plants from seed or create clones from a marijuana plant located physically on their licensed premises, or purchase marijuana seeds, clones, or plants from another licensed producer.

## Growing

## Where can I grow?

#### • Indoors/Greenhouse

Fully enclosed secure indoor facility or greenhouse with rigid walls, a roof, and doors.

#### Outdoor

Outdoor production may take place in non-rigid greenhouses, other structures, or an expanse of open or cleared ground fully enclosed by a physical barrier. To obscure public view of the premises, outdoor production must be enclosed by a sight obscure wall or fence at least eight feet high. Outdoor producers must meet security requirements described in WAC 314-55-083.

## Can a current farm just convert its crop to marijuana?

Converting a crop to marijuana would require a producer license and the farm would have to meet all of the guidelines set forth in the rules pertaining to outdoor growing.

## Can I grow in my personal residence?

No. The rules state that "the Board will not approve a license for any location where law enforcement access, without notice or cause, is limited. This includes personal residences." Private residences are afforded a degree of privacy under the 4<sup>th</sup> amendment of the U.S. Constitution that is incompatible with the regulatory requirements of I-502.

## Are there any limits on how much marijuana I can produce or keep on hand?

Presently the LCB does not plan to limit the amount of marijuana on hand at licensed locations. All marijuana products must be tracked through the traceability software.

## How many plants can I grow? Are there any size restrictions on growing operations?

Presently the WSLCB is not capping the number of plants that a producer can grow or how large of a production facility they operate. However producers will have to track and trace every plant and grant access to that information upon request of the WSLCB.

#### How can I get my marijuana certified as organic?

Marijuana may not be labeled as organic unless permitted by the United States Department of Agriculture in accordance with the Organic Foods Production Act.

## **Processing**

## Why can't I advertize marijuana's medical benefits?

The WSLCB is regulating the recreational marijuana market and does not evaluate the medical claims of a recreational product. Prospective licensees who want to produce/market marijuana for medical purposes should research Washington's medical marijuana laws.

## How will you prevent children from accidentally ingesting marijuana products?

Marijuana infused products must be packaged in child resistant packaging in accordance with Title 16 CFR 1700 of the Poison Prevention Packaging Act.

#### What happened to the "Produced in Washington" icon?

During the public comment period the WSLCB heard a variety of comments on the icon and ultimately decided to remove it from the rules. The intent of the icon was to provide parents, teachers, etc with a visual aid that helped them readily identify a product as marijuana. Many of the comments were positive and appreciated the WSLCB's work on this issue, while others were concerned that the icon may be seen

as promotional. The Board does reserve the ability to require an icon be included on packaging in the future for public safety purposes if they deem it necessary.

## Why does the Board want to ban concentrates?

The Board's analysis believes that the definition of usable marijuana or infused product in I-502 does not cover concentrates. While the Board was willing to allow concentrates they are not inclined to break the law to do so.

## Does hash qualify as usable marijuana?

No. Under the definitions of I-502 hash does not qualify as usable marijuana.

## Can I infuse concentrates with an inert oil, or similar substance, and sell it?

Yes. This would qualify as a marijuana infused product.

## What is the minimum level of added marijuana for a product to be considered a marijuana infused product?

The Board has not set minimum thresholds for what constitutes an "infused" product.

#### Retail

#### Can I run a retail delivery business?

No. Third party delivery is not allowed. All retail sales must take place in a licensed retail establishment.

## Can a medical marijuana outlet and a retail outlet share the same space?

No. The two operations would have to be separate. Retail outlets are only allowed to sell marijuana that comes from a licensed processor and licensed processors are not allowed to sell to unlicensed entities, such as a medical marijuana outlet.

#### Are there any restrictions on retail hours of operation?

Retail marijuana operations may take place between the hours of 8:00AM and 12:00AM.

## Why can't I hold the marijuana before purchase?

I-502 is very clear that there can be no open containers of marijuana, or consumption of marijuana at licensed locations. The WSLCB cannot write rules that contradict the law.

#### Why can't I smell the marijuana before purchase?

Retail licensees are allowed to provide a sample jar with a plastic or metal mesh screen to allow customers the ability to smell the product before purchasing. Opened marijuana products are not allowed inside a licensed retail outlet.

#### Miscellaneous

#### Will the WSLCB be setting prices?

No. The WSLCB will not set prices but licensees are not allowed to sell marijuana products below their acquisition cost.

#### Can I provide samples?

Producers are allowed to provide samples to a processor and processors are allowed to provide samples to a retailer. Retailers are not allowed to supply samples to the public.