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**BOB BLUMENFIELD**

Councilmember, Third District

Date: 12-4-17  
Submitted in REIR Committee  
Council File No: 17-0768  
Item No.: 2  
Deputy: CD3

December 4, 2017

Members of the Rules, Elections, and Intergovernmental Relations Committee  
Councilmember Herb J. Wesson, Jr., Chair  
200 N. Spring Street, Room 430  
Los Angeles, CA 90012

Re: CF17-0768: Making Cannabis Industry Cash-Free

Dear Councilmember Wesson:

I am writing to underscore my strong conviction and desire that, as part of the City's new licensing scheme for cannabis sales, that we prohibit the use of cash for all cannabis transactions. Specifically, we must make the issuance of a permanent license contingent upon the retailer's agreement to make cash transactions for cannabis or cannabis products. This will allow sufficient time for adjustment as the permanent licenses will take months to be issued, but a sixth month adjustment period could also be built in to allay timing concerns.

Doing so would be transformative and would revolutionize the cannabis industry in very positive ways. Los Angeles would be the first city to go cashless, and would undoubtedly lead the way for others. Importantly, it is feasible; products are available today that allow cashless cannabis transactions and a mandate would insure even more products would enter the market. There are credit union apps such as are used in Hawaii, gift card type of payment cards such as LINX that use the Automated Clearing House (ACH) network to make the financial transactions, and others such as expo- the electronic exchange portal presented by Alliance Financial Network. As reported by Forbes, a "debit app called CanPay steps in to provide an alternative to cash-only transactions. It is partnered with Safe Harbor Private Banking, a Denver-based division of partner Colorado Credit Union, which is a leading compliant banking program that specializes in working with cannabis companies." Furthermore, were the entire cannabis industry in Los Angeles to go cashless, other banking possibilities would emerge and be made possible by the market's scale.

There are cashless solutions that have been tested and proven not to run afoul of federal laws or restrictions. We do not need to choose which one of these cashless alternatives is the best, the market will. However, because all of these cashless systems are more complicated and more costly than cash, none of them can easily compete against cash. Consequently, if we want the societal benefits of a cashless system, we need a mandate. The benefits and negative costs of a cash system are borne mostly by society and therefore not reflected in the decision making of dispensaries that choose what type of payment option they will accept. To make the market work, we must remove the cash option.

The Department of Finance currently accepts electronic tax payments from dispensaries that use existing cashless systems. Certain dispensaries in Los Angeles and elsewhere are successfully offering cashless sales. The President of the UCBA in Los Angeles is quoted on one cashless alternative product's website as saying that "their services are a perfect match for our needs." The State of Hawaii requires each of its dispensaries to offer a cashless payment option. Cashless options are not just theoretical, they are currently in practice.

Cash-free cannabis would promote several important public goals. First, while cashless systems have some cost, they allow the City and the cannabis industry to avoid other significant costs associated with securing, transporting and processing large amounts of cash. This is not only a long term money saver, but it avoids the immediate planning and design costs associated with the onslaught of expected cash in this new business. The Department of Finance won't have to fortify its operations to accept all this new cash and dispensaries won't have to design fortresses to store cash on their premises.

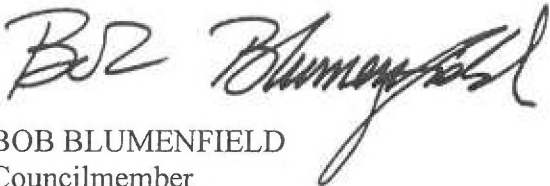
Second, eliminating cash makes cannabis businesses, and City facilities accepting tax and fee payments, less of a target for robberies and violent crime, which has been a significant problem. This would allow LAPD to focus resources on the illegal cannabis trade; and make it easier to do so, because the fact of a cash transaction would be an indicator of an unlicensed business. Also, it helps alleviate neighborhood fears about cannabis businesses being a magnet for crime in their communities.

Third, just as the track-and-trace system is aimed at preventing diversions of cannabis product to the black market, a cashless system would deter money-laundering, tax avoidance, and out-of-state sales, and thus make it less likely that the Trump Administration and Sessions Department of Justice will interfere with California's cannabis legalization program. Also, it would likely result in higher tax yields.

I introduced the motion for us to investigate a cashless mandate back in June. It was heard and discussed by the Budget Committee in October with a verbal report by the Department of Finance. The Council unanimously directed the City Attorney to draft the ordinance. It is now time for us to pass the ordinance. Doing so will send a clear message to the markets that we are serious about cashless alternatives and between now and when permanent licenses go into effect, we will see a cashless tidal wave begin in Los Angeles that will sweep across the State and then the Nation.

I appreciate your committee's hard work on these important policy issues, and thank you for your support of the proposed ordinance to prohibit cash sales of cannabis.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Blumenfeld", written in a cursive, flowing style.

BOB BLUMENFIELD  
Councilmember  
City of Los Angeles

cc: All Councilmembers