

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: February 15, 2018

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No. 18-0002-S9
Assignment No. 18-02-0116

SUBJECT: Resolution (Wesson-Krekorian) to SUPPORT SB 930 (Hertzberg).

CLA RECOMMENDATION: Adopt Resolution (Wesson-Krekorian) to include in the City's 2017-2018 State Legislative Program, SUPPORT for SB 930 (Hertzberg) which would state the intent of the Legislature to enact subsequent legislation that would establish a State-chartered bank that would allow a person licensed to engage in commercial cannabis activity under the Medicinal and Adult-Use Cannabis Regulation and Safety Act to engage in banking activities in California.

SUMMARY

Resolution (Wesson-Krekorian), introduced January 30, 2018, notes that the federal classification of cannabis as a Schedule I drug prevents State-legal cannabis businesses from depositing their business income in federally-insured financial institutions. This locks these businesses out of the banking system, and forces them to operate as cash-only businesses. The Resolution advises that SB 930 (Hertzberg) would state the intent of the Legislature to enact subsequent legislation that would establish a State-chartered bank. This would allow State-chartered financial institutions to work with licensed cannabis businesses to operate within the banking system. The Resolution therefore requests that the City support SB 930.

BACKGROUND

The Control, Regulate and Tax Adult Use of Marijuana Act of 2016, an initiative measure approved as Proposition 64 at the November 8, 2016 Statewide general election, authorizes a person who obtains a State-license under the act to engage in commercial adult-use cannabis activity pursuant to that license and applicable local ordinances. The Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) consolidates the licensure and regulation of commercial medicinal and adult-use cannabis activities.

Despite the legalization of adult-use cannabis in California with the passage of Proposition 64, the US Drug Enforcement Administration still classifies cannabis as a Schedule I drug. Due to cannabis' federal standing, financial institutions that accept funds from cannabis businesses are unable to become federally insured. Therefore, legally licensed cannabis businesses in California are not able to deposit their business income with federally-insured financial institutions, and are instead forced to operate as cash-only businesses.

SB 930 (Hertzberg) would state the intent of the Legislature to enact subsequent legislation that would establish a State-chartered bank that would allow a person licensed to engage in commercial cannabis activity under MAUCRSA to engage in banking activities in California. This would allow financial institutions to work with licensed cannabis businesses to issue certified checks and conduct payroll for certified California employees; pay their State and local taxes and fees while lessening the burden on local government to collect and manage large sums of cash; pay their rent; and invest in California's economy.

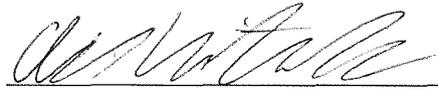
The legislature has referred SB 930 to the State Assembly Committee on Rules. With adoption of this Resolution, the City would urge the legislature to pass and the Governor to sign the bill into law.

DEPARTMENTS NOTIFIED

Department of Cannabis Regulation

BILL STATUS

02/08/18	Referred to Committee
01/25/18	Introduced in Senate



Alex Whitehead
Analyst

Attachment: 1. Resolution (Wesson-Krekorian)
2. SB 930 (Hertzberg)

RULES, ELECTIONS & INTERGOVERNMENTAL RELATIONS RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, despite the legalization of adult-use cannabis in California with the passage of Proposition 64, the US Drug Enforcement Administration still classifies cannabis as a Schedule I drug; and

WHEREAS, legally licensed cannabis businesses are not able to deposit their business income with federally-insured financial institutions, and are instead forced to operate as cash-only businesses; and

WHEREAS, currently pending before the State Assembly is SB 930 (Hertzberg) which addresses issues associated with financial institutions and their ability to serve cannabis businesses; and

WHEREAS, SB 930 (Hertzberg) states the intent of the Legislature to enact subsequent legislation that would establish a State-chartered bank that would allow a person licensed to engage in commercial cannabis activity under the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) to engage in banking activities in California; and

WHEREAS, SB 930 would allow financial institutions to work with licensed cannabis businesses to issue certified checks and conduct payroll for certified California employees; pay their state and local taxes and fees while lessening the burden on local government to collect and manage large sums of cash; pay their rent; and invest in California's economy; and

WHEREAS, the City of Los Angeles should support SB 930 because state-legal cannabis businesses, which are projected to generate from \$8 to 20 billion dollars a year, are forced to operate as cash-only businesses with little government oversight and without the aid of financial institutions;

NOW, THEREFORE, BE IT RESOLVED, that by adoption of this resolution, with concurrence of the Mayor, the City of Los Angeles hereby includes in its 2017-2018 State Legislative Program SUPPORT for SB 930 (Hertzberg), which would state the intent of the Legislature to enact subsequent legislation that would establish a State-chartered bank that would allow a person licensed to engage in commercial cannabis activity under the Medicinal and Adult-Use Cannabis Regulation and Safety Act to engage in banking activities in California.

PRESENTED BY:

Herb J. Wesson, Jr.
HERB J. WESSON, JR.
Councilmember, 10th District

JAN 30 2018

SECONDED BY:

Paul Rubio

ORIGINAL

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[Signature]

Introduced by Senator Hertzberg

January 25, 2018

An act relating to financial institutions.

LEGISLATIVE COUNSEL'S DIGEST

SB 930, as introduced, Hertzberg. Financial institutions: cannabis.

Existing law, the Financial Institutions Law, regulates the activities of various financial entities, including commercial banks, industrial banks, trust companies, credit unions, and savings and loan associations.

The Control, Regulate and Tax Adult Use of Marijuana Act of 2016, an initiative measure approved as Proposition 64 at the November 8, 2016, statewide general election, authorizes a person who obtains a state license under the act to engage in commercial adult-use cannabis activity pursuant to that license and applicable local ordinances. The Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), among other things, consolidates the licensure and regulation of commercial medicinal and adult-use cannabis activities.

This bill would state the intent of the Legislature to enact subsequent legislation that would establish a state-chartered bank that would allow a person licensed to engage in commercial cannabis activity under MAUCRSA to engage in banking activities in California.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. It is the intent of the Legislature to enact
- 2 subsequent legislation that would establish a state-chartered bank
- 3 that would allow a person licensed to engage in commercial

- 1 cannabis activity under Division 10 (commencing with Section
- 2 26000) of the Business and Professions Code to engage in banking
- 3 activities in California.

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