



JOHN CHIANG
TREASURER
STATE OF CALIFORNIA

May 24, 2017

Dear California Congressional Delegation:

I write to you today to advise you of my strong support for the Secure and Fair Enforcement Banking Act of 2017 (H.R. 2215), recently introduced by Congressman Ed Perlmutter of Colorado. Briefly stated, this important legislation would provide a safe harbor to banks and other financial institutions that provide banking services to legitimate cannabis-related businesses in states that have now legalized cannabis.

As you know, more than 20 years ago, California legalized the medicinal use of cannabis. And in November 2016, the voters of California approved Proposition 64, allowing for the commercialization of recreational cannabis. As of January 1, 2018, cannabis will be fully legal in California, as it is in a number of states. Meanwhile federal law continues to treat it as a Schedule 1 controlled substance. This dichotomy has made it difficult for cannabis businesses legal under state law to obtain banking services from financial institutions regulated under federal law. The vast majority of banks and credit unions are unwilling to provide banking services to cannabis industries because of their fears of running afoul of their federal regulators.

In response to the passage of Proposition 64, I formed the Cannabis Banking Working Group consisting of representatives from the banking industry and cannabis industry, revenue collecting government agencies and local government, and state regulators and law enforcement. The single objective of this group is to identify solutions that will assist legitimate cannabis-related businesses in California in obtaining banking services that every other legitimate business is able to obtain in the state.

The dichotomy between state and federal law has created a number of significant problems. Through meetings of the Working Group, we have heard of the following consequences:

- A dispensary in Oakland must find a way to deliver several hundred thousands of dollars to the state Board of Equalization every month in cash.
- A dispensary in San Jose projects that it will become the single largest taxpayer to the city of San Jose as of January 1, 2018, requiring it to pay as much as \$7 million in taxes to the city every year in cash.

- Tax collection agencies at both the state and local level are struggling with how to collect and process the amount of cash that is coming in from cannabis businesses paying their taxes.
- A multitude of respected analysts confirm that transactions handled solely in cash increase the likelihood of unlawful activity.
- Auxiliary businesses have also been affected. For instance, an attorney who provides legal services to the cannabis industry lost his bank account when the bank found out about his clientele. In addition, legitimate businesses such as agricultural supply companies struggle with the cash their cannabis growing customers pay their bills with and also risk losing banking services.
- Cannabis business owners are compelled to pay their employees, suppliers, and others entirely in cash and struggle with how to pay for benefits and other business expenses.
- Such a cash-intensive industry invites the shadiest elements and increases the risk of crime. We have heard from a dispensary owner the day after his store was broken into by criminals looking for cash, and from a dispensary owner who worries every day whether his employees, many of them family members, will arrive home from work safely.

These problems will only grow ever larger after January 1, 2018, when the commercialization of recreational cannabis use becomes fully legal. The California Legislative Analyst's Office projects that the industry will grow to approximately \$7 billion within a year or two. Those more directly involved with the cannabis industry project that the actual size of the industry may be as much as three to five times greater. Imagine an industry that may generate as much as \$35 billion in revenues, awash in cash and unable to engage in effective banking and commerce the way all other legitimate companies are able to do. This is an open door for crime and tragedy on a daily basis in communities across California. It seems inappropriate to avoid dealing with a cash-based system at a time when law enforcement seeks even more clarity on the movement of money to combat terrorism and organized crime.

What we have also learned through the efforts of the Working Group is that, while there are some steps the State can take to address these issues, the only real solution lies with the federal government. This is why H.R. 2215 is so important. The safe harbor for federal prosecution and penalties it provides to banks that provide financial services to cannabis-related businesses that are legally operating in compliance with state law is critical to providing a better, safer way. Rather than leaving this legitimate industry operating in the shadows and subject to never-ending threats, this legislation provides an open door to banks to provide financial services that would go a long way to shut the existing open door that beckons to the criminal element in California. It has the added benefit of enabling better tracing of payments to avoid the precise problems that the U.S. Department of the Treasury focuses on within the Financial Crimes Enforcement Network.

Regardless of whether you supported or opposed Proposition 64, the voters of California have spoken. As their representatives, we all have an obligation to take

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reasonable and necessary steps to protect our citizens and ensure businesses operating legally within California are able to fully engage in our banking and commerce system.

It is for these reasons that I strongly support the Secure and Fair Enforcement Banking Act of 2017 and urge you to do so as well. It is sensible for California. It is sensible for the country.

Sincerely,



JOHN CHIANG
California State Treasurer

cc: Congressman Ed Perlmutter