



Senate Bill 51
Banking for the Cannabis Industry
As Introduced on December 4, 2018

SUMMARY

SB 51 creates a limited-purpose, state-chartered bank license that would be administered and regulated by the Department of Business Oversight. Privately-funded banks that receive this charter would be able to provide limited banking services to licensed cannabis and cannabis-related businesses. Under SB 51, banks could issue checks to accountholders to only be used for the following purposes:

- Pay state and local taxes and fees,
- Pay vendors from California for goods and services provided to the cannabis business,
- Pay rent, and
- Purchase state and local bonds and other debt instruments.

ISSUE

In 1996, the passage of Proposition 215 legalized the use and consumption of medical marijuana in California, and the passage of Proposition 64 legalized the recreational use of cannabis by adults as of January 2018. However, due to cannabis' federal classification as a Schedule I drug, cannabis-related businesses are not able to deposit income with federally-insured financial institutions. The cannabis industry is expected to generate between \$8-20 billion annually. This is a massive industry that we can only expect will continue to grow; yet cultivation, distribution, and retail businesses alike have been forced to operate on a cash-only basis. This is not only impractical from an accounting perspective, but also presents a significant public safety issue.

During the first quarter of 2018 alone, the state collected almost \$34 million in marijuana sales taxes, and the Department of Finance estimates that the state will collect \$600 million in cannabis taxes in the upcoming fiscal year. However, unlike most businesses, those in the cannabis industry arrive to government offices with duffel bags of cash to fulfill their tax obligations. Standard oversight and accountability measures, like audits, become very difficult when most transactions are completed in cash. Additionally, these businesses face security risks because of the volume of cash in their possession. SB 51 is an integral step toward integrating cannabis-related businesses into the California economy in a safe and transparent manner.

SB 51 (HERTZBERG)

SB 51 allows cannabis-related businesses to open accounts and deposit income in banks that hold a limited purpose state charter created under this bill. The bill also authorizes these banks to obtain private insurance, in lieu of Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) insurance. SB 51 also creates an advisory board composed of the State Treasurer, Controller and the Chief of the Bureau of Cannabis Control as members, and the Director of the Department of Finance as an ex officio, nonvoting member. The Department of Business Oversight would be required to adopt emergency regulations and could not issue bank or credit union licenses before July 1, 2020.