



City of Berkeley, District 3
2180 Milvia Street, 5th Floor
Berkeley, CA 94704
PHONE 510-981-7130
EMAIL: bbartlett@cityofberkeley.info

CONSENT CALENDAR
April 23, 2019

To: Honorable Mayor and Members of the City Council
From: Councilmember Ben Bartlett
Subject: Authorize Sending a Letter of Support for AB-953 “Cannabis: state and local taxes: payment by digital asset” to Assemblymember Phil Ting

RECOMMENDATION:

That the City Council authorize sending a letter of support for AB-953 to Assemblymember Ting. AB-953 will allow state and local tax authorities to collect cannabis-generated taxes via stable digital currencies. This will help to address legal cannabis businesses’ underbanking problem.

BACKGROUND:

In 2016, California voters passed Proposition 64 - the Adult Usage Marijuana Act. Today, California represents about a third of the North American cannabis market with the state taking in more than \$345 million in taxes last year alone. Proposition 64 was designed to create new revenue for the state and address public safety concerns by driving out the illegal market. However, these efforts are being compromised by cannabis businesses’ inability to engage in traditional banking services.

As a result, 70% of legal cannabis-related businesses across the US do not have a bank account, meaning this entire industry is run almost entirely in cash, creating profound implications for the industry’s sustainability, safety, and ability to pay taxes. In response to this, the Cannabis Banking Working Group (CBWG) was formed to address these concerns and concluded that while the current situation cannot stand, no policy outside of federal action could resolve this issue.

A possible solution is the use of stablecoins. A stablecoin is an electronic virtual currency tied to the US Dollar, thus inoculating the virtual currency from volatility. Therefore, stablecoins provide the same stability as cash, but are easier, safer, and less costly to administer.

To restate, AB-953 authorizes state and local tax agencies to use stablecoin to collect cannabis-related taxes. AB-953 presents an interim solution that will help realize legal cannabis’ promise of improved public safety and new revenue sources.

For more information:

https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB953

FINANCIAL IMPLICATIONS:

Minimal

ENVIRONMENTAL SUSTAINABILITY:

Consistent with Berkeley's Environmental Sustainability Goals and no negative impact.

CONTACT PERSON:

Councilmember Ben Bartlett 510-981-7130
Brian Gan 510-981-7131

Attachment: (if necessary)

1. Draft Letter of Support

Attachment 1:

April 1, 2019

The Honorable Assemblymember Phil Ting
California State Assembly
State Capitol
P.O. Box 942849
Sacramento, CA 94249

RE: Assembly Bill 953 (Ting) – Cannabis state and local taxes payment by digital asset - SUPPORT

Dear Assemblymember Ting,

The Honorable Mayor and Members of the Berkeley City Council are pleased to support AB 953, which will help address legal cannabis businesses' underbanking problem by allowing state and local tax authorities to collect cannabis-generated taxes via stablecoin, providing a safe and cost-effective solution.

In 2016, California voters passed Proposition 64 – the Adult Usage Marijuana Act – with 57 percent of the vote. Today, California represents about a third of the North American cannabis market with the state taking in more than \$345 million in taxes last year alone (California Department of Tax and Fee Administration). Proposition 64 was designed to bring in new revenue for the state as well as address public safety concerns by driving out the illegal market. The post-Proposition 64 reality has been compromised by cannabis businesses' inability to engage in traditional banking services.

As a result, 70% of legal cannabis-related businesses across the US do not have a bank account, meaning this billion dollar industry is run almost entirely in cash. For its part, California state government is bringing in hundreds of millions of dollars in cash delivered by armored vehicle. This underbanking has profound implications for the legal cannabis industry's sustainability, safety, and ability to pay taxes. This is why the California State Treasurer convened the Cannabis Banking Working Group (CBWG) to address these concerns. In its 2018 report, CBWG concluded that while the status quo cannot stand, without federal action to legalize cannabis, no policy could solve this problem.

Stable virtual currency, also known as stablecoin, may provide a workable solution to cannabis' cash problem. Stablecoin is tied to the US Dollar which inoculates the cryptocurrency from volatility experienced by other types of virtual currency. As such, stablecoin provides the same stability as cash but is far easier, safer, and less costly to administer. Examples of stablecoins on the market include TrueUSD, UPUSD, and USDC – a stablecoin backed by Goldman Sachs.

Authorizing state and local tax agencies to collect and remit cannabis related taxes as an interim solution will help deliver on cannabis legalization's promise for improved public safety as well as new and greater revenue sources. For these reasons and more, the Honorable Mayor and Members of the Berkeley City Council are proud to support AB 953.

Respectfully,
the Honorable Mayor and Members of the Berkeley City Council

Jesse Arreguin
Mayor, City of Berkeley

Members of the Berkeley City Council

