



State of West Virginia

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May 10, 2018

The Honorable Governor Jim Justice
Office of the Governor
State Capitol
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305

Re: State of West Virginia
Banking Medical Cannabis Moneys

Dear Governor Justice:

As requested, I am respectfully submitting a letter recommending possible solutions to the problem of cannabis banking in the State of West Virginia. As I have previously stated, federal laws, regulations and policies prompted banking vendors currently on contract with my office to notify us they are unwilling to accept medical cannabis funds.

The processing of medical cannabis funds is a complicated issue. In an effort to find a lawful banking solution for the West Virginia Medical Cannabis Act, my staff and I have proactively reached out to discuss the situation with many stakeholders on both the state and national levels. Those include members of the U.S. Congress, the U.S. Treasury Secretary, other state officials, financial institutions, state lawmakers, agencies, and the general public.

Additionally, my office released a Request for Information (RFI) on April 2, 2018 in search of banking solutions for sales, fees, licenses, taxes, and other transactions related to medical cannabis in West Virginia. It was distributed to hundreds of potential vendors in the banking industry who operate the traditional banking relationships as well as third-party payment processing systems. Unfortunately, only two responses were received, and neither provided sufficient detailed information or helpful guidance on how West Virginia should proceed to solve the medical cannabis banking issues.

Still, my goal is to find a lawful banking solution. My office has conducted extensive research into how other states process medical cannabis funds. Based on this research, presented below are two options for processing these funds in West Virginia.

Each method requires legislative action. My General Counsel and staff are prepared to assist in drafting legislation based on what option you choose. If legislation passes that is viable and provides sufficient protections, then my office will proceed with implementation.

Option 1: Closed-Loop System/Open-Loop System/Combination of Both

A "closed-loop" system would provide an option in which payments may only be made within the network of individuals and entities that have accounts with the system. This system would be able to monitor and facilitate financial transactions between the State of West Virginia and authorize entities associated with medical cannabis (e.g., patients, caregivers, dispensaries, growers, and processors) and would meet requirements of the banking industry. An "open-loop" system would provide payment services that can also generate payments outside the network.

This type of third party payment service would provide a means for establishing accounts by the entities associated with medical cannabis; maintain strong security and fraud prevention practices and controls; provide robust reporting, including online access and integration with the Bureau of Public Health and State of West Virginia systems; and provide various other services, including armored car/courier services.

If this option is chosen and appropriate, the Treasurer's Office would then issue purchasing documents to select a vendor.

Option 2: State-Owned Bank

A West Virginia state-owned bank would be owned and operated by the State of West Virginia, specifically the West Virginia State Treasurer's Office.

If this is the preferred option, the appropriate structure, governance, and banking activities must be outlined, and agreed upon, and then authorizing legislation enacted.

Each of these options are complex and have positive and negative attributes. This letter is merely a summary of the options recommended. My staff and I are available to provide additional information.

Once legislation is enacted and prior to implementation, the Treasurer's Office is willing to accept cashier's check to be held by the Treasurer's Office in safekeeping. The payments would be processed once a viable banking function is implemented.

My office looks forward to working with all involved parties to move forward with a workable option.

Sincerely,



John Perdue
State Treasurer

cc: The Honorable Mitch Carmichael
The Honorable Tim Armstead
The Honorable Tim Miley
The Honorable Roman Prezioso
Dr. Rahul Gupta, State Health Officer and Commissioner