



JEROME E. HORTON
MEMBER
CALIFORNIA STATE BOARD OF EQUALIZATION

October 20, 2016

Re: Proposition 64 Oppose

Dear Opposing Organization:

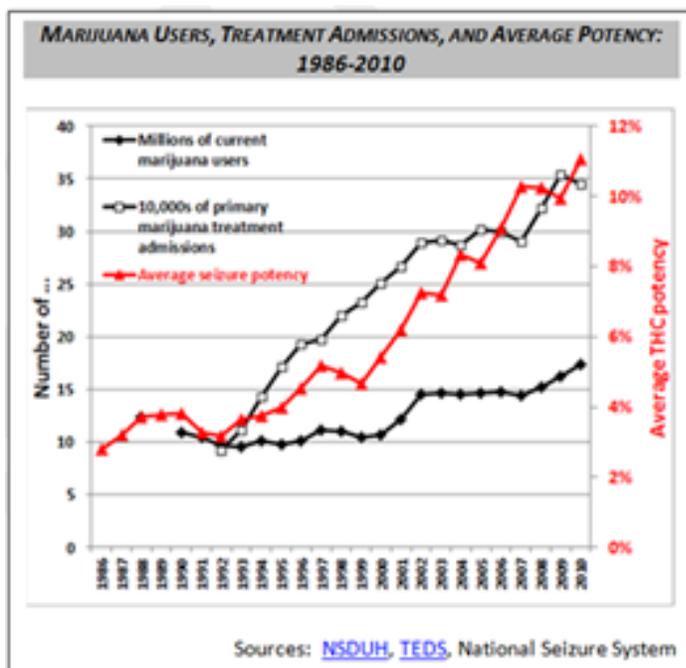
Proposition 64, which would enable over 23 million Californians to legally smoke or ingest weed, fails to provide adequate tax compliance and criminal enforcement measures to mitigate its negative criminal and health impacts and protect lives as well as the projected tax revenue. Without the proper protections, it is estimated that 40 percent of the projected revenue will go uncollected and fatal crashes involving drivers under the influence of marijuana will double.

A statewide "Drugged Driving Summit," sponsored by the Automobile Club of Southern California (AAA), highlighted the dangers of driving while under the influence of cannabis. AAA reported that in recent years, drug-impaired driving has risen nationwide, while drunk driving has decreased, and in California, nearly one in five fatal collisions involved at least one driver who tested positive for drug use. AAA also reported that since the state of Washington legalized recreational marijuana, fatal crashes involving drivers under the influence of marijuana have more than doubled.

Data received by the Board of Equalization indicates that black market sales of cannabis will increase significantly and that 40 percent of the projected tax revenue will not be collected. According to a Little Hoover Commission study, an estimated \$8.5 to \$10 billion in tax revenue now remains uncollected as a result of criminals operating in the underground economy, and Proposition 64 does little to address this concern.

Indicative of a culture of noncompliance in the cannabis industry, the City of Los Angeles sought to limit the number of cannabis dispensaries to 135 through Measure D in 2013, but as of 2015 over 650 dispensaries were registered with the Board of Equalization and hundreds more operate underground. In other states where recreational cannabis has been legalized, the rate of non-compliance has surged, with Colorado reporting a rate of more than thirty percent.

Researchers from the RAND Corporation have noted that there is a significant profit motive for existing black market providers to stay in the market, as "they can still cover their costs of production and make a nice profit." Further, the added taxes and fees in Proposition 64 will give criminals operating in the black market a competitive advantage over legitimate operators.



Per the Drug Enforcement Administration (DEA), 2013 National Drug Threat Assessment, current levels of THC in cannabis are two to seven times more potent than they were in the 1970s, have a “high potential” for abuse, and can result in psychological dependence. This increase in potency makes the product as attractive as the other products produced and trafficked by the cartels, such as methamphetamine, heroin, and cocaine. Given these realities, with the passage of Proposition 64 these criminals will simply blend into the legal framework and go undetected and un-arrested, leaving them to illegally distribute weed that has not been taxed or tested for health concerns.

Currently, Mexican drug trafficking organizations, such as the Sinaloa Cartel, smuggle product from large growing fields in Mexico, and in response to interdiction efforts at the border they are increasingly growing marijuana on public land in California – which in many cases involves human trafficking. Accordingly, it is very unlikely that cartels will discontinue their production and sale of cannabis without the enactment of stronger enforcement, investigation, prosecution, and arrest laws than those in Proposition 64.

In 2007, illegal drugs cost \$193 billion nationally. Adjusted for inflation, these costs in 2016 are approximately equivalent to \$219 billion, including health care, lost productivity, crime, and other expenditures. The optimistic evaluations of the potential financial savings from legalization and taxation fail to account for the realities of increased automobile accidents, emergency room/hospital costs, addiction costs [approximately 9 percent (1 in 11) of marijuana users become dependent], noncompliance with the tax code, and other economic and social costs of drug use and its consequences.

In 2011, approximately 2.6 million Americans age 12 or older used cannabis for the first time, averaging about 7,100 new marijuana users every day. While relatively unchanged from the past few years, it is a higher number of people than is estimated in the early- and mid-2000s. In 2011, the average age of first use by individuals between 12 and 49 was 17.5. This is important, as

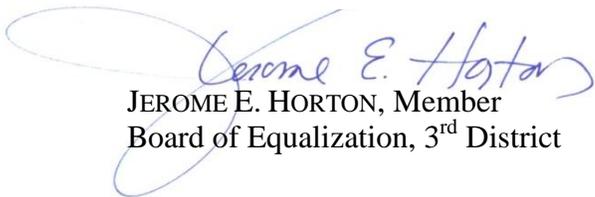
earlier initiation of marijuana use is associated with a higher likelihood of needing treatment in the future. In 2011, among those who first tried marijuana at age 14 or younger, 13 percent were classified with illicit drug dependence or abuse, higher than the 2 percent of adults who had first used marijuana at age 18 or older.

It is my intention to sponsor legislation to establish a Cannabis Tax Enforcement Unit that provides California taxing agencies with the staffing and authority to enforce all current law and Proposition 64, if it should pass. In addition, the legislation would set up the track and trace provisions similar to the Cigarette and Tobacco Tax Act, AB 71, which I authored in 2003 to control counterfeiting and other illegal trafficking of cigarettes and tobacco products. The further any product travels from the cultivator, the greater the opportunity for tax evasion, contamination from blending with other narcotics or substances, transmission to minors, and engagement in the underground economy (resulting in hundreds of millions of dollars in unreported economic activity and public health concerns).

The Board of Equalization is also concerned about the potential loss of life and resources this all-cash industry presents to our staff and the public in collecting the tax revenue. We are making plans for increased security measures to protect our staff and taxpayers from potential criminal activity associated with the large sums of cash that participants in this industry use to pay their taxes. In the meantime, the BOE 3rd District offices have discontinued accepting cash payment until security measures can be put in place to protect our citizens from the risks associated with handling such large amounts of cash for the payment of cannabis sales tax.

The cost of getting high is too high and too risky, and the provisions in Proposition 64 are not sufficient to protect Californians from the negative criminal and financial impact of allowing over 23 million Californians to get high on our roads, in our parks, and at other public places where smoking or ingesting cannabis products is permitted.

In your service,



JEROME E. HORTON, Member
Board of Equalization, 3rd District