



JOHN CHIANG
TREASURER
STATE OF CALIFORNIA

December 1, 2016

Dear California members of Congress,

I want to raise an issue to your attention that is of critical importance to California. As you know, on November 8, 2016, the voters of California passed Proposition 64. California now joins Colorado, Oregon, Washington, Massachusetts, Nevada, Alaska, Maine, and the District of Columbia in legalizing recreational use of cannabis.

Previous experience with legalization has shown that the conflict between federal classification of cannabis as a Schedule 1 drug under the Controlled Substances Act and legalization at the state level has created significant problems. Of primary concern to my office are the limits federal rules place on the cannabis industry's ability to effectively participate in the state and nation's banking system. This conflict between federal and state rules creates a number of problems for the states that have legalized cannabis use, including difficulties collecting tax revenue, increased risk of serious crime, and the inability of what is a legal industry under state law to effectively engage in banking and commerce.

On February 14, 2014, the United States Department of Justice issued a memorandum, commonly referred to as the Cole Memo, which attempted to clarify the federal government's prosecution priorities related to enforcement of the Controlled Substances Act. Initially, there was hope that the Cole Memo would provide some certainty to financial institutions and assist the cannabis industry in safely and legally banking its revenues. Anecdotal evidence, however, suggests that the Cole Memo has not produced those results. Consequently, the passage of Proposition 64 in California might make the banking problem even more severe.

Under Proposition 64, the commercialization of recreational cannabis will go into effect in California on January 1, 2018. California's independent Legislative Analyst has estimated that additional tax revenues as a result of the passage of this proposition could be in excess of \$1 billion annually.

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We have a year to develop a system that works in California and which addresses the many issues that exist as a result of the federal-state conflict. I write today to seek any guidance and assistance you can provide in addressing these issues with the new administration and developing certainty about the direction the Federal government takes on these issues in the years ahead.

Sincerely,



John Chiang
California State Treasurer