

# **Marijuana Banking Pilot Program Informational Vendor Stakeholder Meeting**

Monday, September 30, 2019 at 2:00 p.m.  
State Capitol Building  
Old Assembly Chambers, 2<sup>nd</sup> Floor  
101 N Carson Street  
Carson City, NV 89701

## **Meeting Minutes**

**Treasurer Conine** welcomed the meeting at approximately 2:04pm.

**Treasurer Conine** introduced Assembly Bill 466 (AB466), which created a system that could fix the problem related to cash-based businesses.

**Treasurer Conine** began the PowerPoint presentation and provided a background on AB466. AB466 created a pilot program for a closed-loop system where funds can transmit within after having been entered as cash. Treasurer Conine provided the examples such as Venmo, casino chips, and gift cards. Treasurer Conine noted that the bill requires at least one system to be up and running by July 1, 2020, with the goal of having multiple systems up so the State can compare and contrast different elements of a System that may work better than others. Treasurer Conine noted that the Program will run through July 1, 2023.

**Treasurer Conine** then presented the requirements of the pilot program. Specifically, the pilot program has to be completely voluntary for businesses to participate in, as it should be a market-based solution, with the goal of making it easier for legal cannabis businesses to exist.

**Treasurer Conine** then presented the goals of the pilot prom as established by AB466:

Safety - both state employees and employees of legal cannabis businesses are at risk. Currently, there is too much cash coming into state buildings, transmitted from dispensaries to suppliers, or being used to pay utilities. The goal is to determine how best to remove cash from the current system.

Transparent - State has a big focus to try to make sure legal cannabis businesses are as transparent as possible. The intent of the pilot program is to create something that allows for fluid recordkeeping on transactions. The System will also include information that will be transmitted to the Department of Taxation which will work with the Marijuana Enforcement Tracking Reporting Compliance (METRC) system. The System then can be used to create a separate ledger of transactions to compare against METRC.

**Attendee** asked if consumer information will be visible to the government.

**Treasurer Conine** clarified that the attendee was speaking to a customer of a legal cannabis business and not a legal cannabis business or a vendor of a legal cannabis business. Treasurer Conine noted that the consumer side is a moving target as it relates to information and data shared; however, on the business side the System will have full transparency.

**Treasurer Conine** resumed outlining the goals of the pilot program, noting that it should be efficient. Treasurer Conine also noted the green tax, wherein businesses may be charged more because they're paying for things in cash, which creates inefficiencies.

Finally, **Treasurer Conine** noted that the System must be lawful. Notably, the more it meets the other goals as outlined above, the more it will dissuade bad actors from taking advantage of the cash-based industry.

**Treasurer Conine** shared how the State anticipates the System will work. Treasurer Conine stated the "how" will be determined by the vendor.

**Attendee** asked if the System will use secure tokens or utility tokens.

**Treasurer Conine** answered that it could go either way; however, the goal would be to work with the industry to determine what the needs of the System will be.

**Treasurer Conine** resumed outlining how the System is anticipated to work.

During Step 1, cash will be deposited into a machine, and the System will create tokens. Cash will be entered through a distributed network of vaults across the State. These machines exist currently, often through those businesses that have armored cars. The machines will require an

interface built in so when money goes in, a token is generated. Treasurer Conine provided that for purposes of the System, token means a store of value that is infinite in number and creates no supply demand curve. If 1 dollar is deposited into a machine, 100 tokens are created. Token will be a stable value tied to the USD. The System will need to know where the token was created, what account it was created for, and what dollar was used to create the token. Then, every time a token transmits to another wallet, the token will be appended with information related to the transaction. The token will interact with the System on the way to ensure it's valid. At each transmission point, a check happens that creates redundancy in the program for anti-money laundering purposes. The Department of Taxation also shared that it'd be useful to know what the transaction was for, so as to ensure excise taxes are accurate.

**Attendee** asked if it will only be cash in the System, or if users can create tokens with credit or debit.

**Treasurer Conine** answered that the goal is to come up with a system that works, with potential for growth; however, the current issue is cash so the State will focus on solving that issue first, as it will likely be hard to get a merchant processor that stays completely within the State. While there are vendors who may be able to create a system that allows for credit or debit, the function wouldn't be necessary at the outset.

**Attendee** asked if the tokens will be offered by the State or already created by business.

**Treasurer Conine** answered that the tokens will be created for the platform, and the backing of the tokens would be by the State.

**Attendee** asked if the System would be compliant with federal law.

**Treasurer Conine** answered that the State has decided to legalize cannabis, which has created opportunity for the State; however, it has also created a large issue with cash. The State has an obligation to protect its citizens and in creating the System, the State will avoid things that are clearly federally non-compliant, such as allowing transactions to go beyond state lines.

Notwithstanding, whenever something new is done, legal questions will always have to be asked and answered.

**Treasurer Conine** continued the presentation, stating that the State will seek at least two vendors. One vendor to provide solutions for a business to business transactions, and one to provide a business to consumer solution. Treasurer Conine noted that there may be less interested from the consumer side.

**Treasurer Conine** explained that the goal was to get all verticals of the industry involved in the pilot program, including dispensaries, cultivation facilities, and growing facilities, as well as all the businesses they work with. Cash will be held in vaults until the vendor provides for cash pick-up. Treasurer Conine expects that vendors will hire subcontractors to facilitate the cash pick-ups. Once picked up, cash will be taken to a bank account. Money coming in from tokens will be able to be used for marijuana transactions, but also to facilitate other transactions such as paying a utility or a landlord. Finally, at some point, a final user will request redemption through either an app or a website. Treasurer Conine noted that the tokens, having been appended at each step, will then be checked one final time. Then, money will leave the account and the token will be destroyed. Tokens will not be recycled or exist past the original redemption. Unlike casino chips, tokens cannot be reused after having redeemed for cash.

**Attendee** asked, in the scenario of a landlord requesting redemption of tokens, will the money go straight to the landlord's bank account.

**Treasurer Conine** answered that yes, that is the intention of the program. The redemption comes from the System and then goes directly in either the form of a check, or an ACH or a transfer.

**Attendee** asked if the cash that was used to create tokens will be put in a bank account.

**Treasurer Conine** answered that yes. Cash is currently held in banks; likewise, tokens will be used for things other than purchasing legal cannabis products.

**Attendee** asked why the state wouldn't pursue other solutions such as providing a gift card service.

**Treasurer Conine** answered that the System will provide full transparency, something that a gift card is unable to do.

**Attendee** asked how tokens would be received.

**Treasurer Conine** clarified that the tokens would exist digitally, noting that users would not have to do anything to receive them, and upon entering cash into a machine, they would be created simultaneously into an account. By creating a distributed network of locations, there is less of a risk than a single point where cash enters the System.

**Attendee** asked if the vendor themselves had to pick up the cash.

**Treasurer Conine** noted that not necessarily, but that he expects it to be a company that currently performs the services and acts as a subcontractor for the vendor.

**Attendee** asked if the State was prepared to accept taxes in tokens.

**Treasurer Conine** answered yes, the ability is part of the full intent of the pilot program.

**Attendee** asked that if the issues would be solved if the State was able to transact with a digital currency.

**Treasurer Conine** answered that the State couldn't transact with digital currency without a legislative change.

**Attendee** asked what the difference between the tokens and digital currency is.

**Treasurer Conine** answered that tokens will not be a currency in that they cannot have a value that fluctuates, as users shouldn't have to deal with the risk of value fluctuation. Tokens will have no supply and demand curves, and there can be infinite number of tokens created, each being worth the same exact amount.

**Attendee** asked if the location of the reverse deposit machines will be secret and how security will be handled.

**Treasurer Conine** answered that the machines will be placed in secure systems. In the business to business solution, the intent is to provide a vault for each location on the System. If there is a business to consumer solution, vaults can be placed in various locations to deconcentrate the associated risks.

**Treasurer Conine** resumed the presentation by providing an anticipated timeline of the pilot program. Later this month, a Request for Proposal (RFP) will be issued and will include a deadline for submission, and follow the established State Purchasing process. Next, there will be vendor presentations, and a final selection by an evaluation committee. The selected proposal(s) are then required to be presented to the Interim Finance Committee (IFC). Then, the selected proposal(s) will go to the Board of Examiners, the State body that approves all state contracts, for approval. The goal is then to have one or more systems up for the pilot program by July 1, 2020. Because it's a pilot, some functions may be scale-able, and some functions may be less scale-able. The program is voluntary and participants in the industry will need to want to use it; however, the State will have to make some decisions about how to involve users who wish to participate if size is limited.

**Attendee** asked if there were any projections about how and when the System plateaus.

**Treasurer Conine** answered that demand will be based on a couple of things, notably how it works, how much it costs, and how the fees are structured. The goal is to make sure that the industry participants want to use it. Because industry has been established already it's likely that other solutions have been created. Treasurer Conine assumes that smaller entities in the industry will not be able to use as they'll be unable to take on the risk, and that larger entities will likely not participate early on because they've already had to establish a system that works.

Accordingly, the growth of the pilot program will be able to be controlled.

**Attendee** asked what the metrics of success will be.

**Treasurer Conine** answered that so long as the System meets all of the Legislative targets, the other goal is to remove as much cash as possible. The System should also allow participants from primarily underserved communities who have no traditional means of capital and no access to traditional banking, to participate in the industry.

**Attendee** asked if the System should allow for reconciliation for audit purposes.

**Treasurer Conine** answered that yes, the System should first have the ability to capture information about transactions so it can be used for reconciliation. In the future, the ability to reconcile transactions with METRC and other accounting software such as QuickBooks would

also be important. Eventually, tax payments could come through system immediately; however, it's not likely to be something that's necessary in the first round of the pilot program.

**Attendee** asked if the Department of Taxation will have the means to use the System for an audit.

**Treasurer Conine** noted that the Department of Taxation currently uses METRC and will have the ability to use the information in the System alongside METRC to reconcile transactions.

**Treasurer Conine** presented questions for feedback, noting that if there are any additional questions or feedback attendees may have, to please send.

**Treasurer Conine** first asked attendees if there was any part of the Program that caused concern and reiterated that compliance with all laws is a notable concern among attendees. Treasurer Conine noted that there is also legislation currently moving through Congress, the SAFE Banking Act, that if passed, would solve the issues related to cash-based businesses, making the Program redundant and unnecessary. The end solution will be a federal one; however, dangers to the State exist currently.

**Treasurer Conine** asked for additional feedback specifically, for attendees to determine if any parts of the proposed System seem unworkable, noting that there will be additional details released through the RFP. Treasurer Conine stated that the RFP also has an established process to allow for feedback, should more questions arise.

**Treasurer Conine** then presented the question of what the State could do to make the program more effective. Given that attendees have experience, there will likely be feedback that attendees could solicit from existing customers that may be helpful in providing functionality for the System.

**Treasurer Conine** asked what subcontractors, if any, attendees anticipate having to hire to administer the System. Treasurer Conine noted that the most obvious would seem to be those in the cash vaulting business; however, there may be others. Attendees were encouraged to share any subcontractors they may need to hire to administer the System.

**Attendee** asked if the State expects to use a new vaulting system or to use existing ones such as those located in public places.

**Treasurer Conine** answered that both options may work; however, the end machine will likely have some sort of application programming interface (API) between an existing machine to interface and credit multiple existing accounts.

**Attendee** asked if new vaults will need to be built.

**Treasurer Conine** answered that it's likely that the technology exists but will need to be deployed a new way and in a new location. It's anticipated that utilizing machines in existing locations will not solve the issue, although it may mitigate time spent driving to a further location, the risk of transporting large amounts of cash will still exist.

**Attendee** asked if the System will need to be integrated with additional functionality.

**Treasurer Conine** answered that a solution to solve the basic issues should be finalized first, and any additional functionality, while it's fine to exist, will not be necessary during the pilot program.

**Treasurer Conine** then presented additional questions to attendees for feedback. Treasurer Conine asked attendees what volume of user transactions would be needed to support the System for costs.

Treasurer Conine explained that within AB466 there are two limitations on costs:

1. The System cannot cost the State anything, i.e., the State has no money to pay for the System.
2. An employee receiving a paycheck through the System cannot be charged for receiving their pay, as employees shouldn't have to be paid less to get their paycheck.

**Attendee** asked if the limitations on costs are just for the purposes of the pilot program.

**Treasurer Conine** answered, yes.

**Treasurer Conine** further explained that charges could be set up in different ways. For example, users could be charged for creation of tokens, upon redemption of tokens, upon transmission of tokens, or some combination of the three. Treasurer Conine asked attendees to determine how much would be necessary for them to break even in creating and administering the System as it's expected, at least during the pilot program, that the System won't be lucrative for vendors.

However, as adoption increases and the System becomes more widely used, vendors may be presented with increased opportunities. Costs should hopefully be significantly less than the current costs associated with managing a cash-based business. Treasurer Conine noted that the State is unlikely to be interested in a solution that provides a cheap option at the pilot program level and then an exponentially more expensive solution should the System need to scale.

**Attendee** asked if fees will cover costs to the Office.

**Treasurer Conine** answered that yes, costs will be covered by an application fee required in the RFP. The costs to the Office will be de minimis. Fees will be used to cover costs associated with travel and will not scale over time, but instead will be used to cover the startup costs of the pilot program.

**Treasurer Conine** asked attendees to consider what they believe the costliest part of the System to create and or administer will be, as the Office would like to understand where the largest costs to vendors will originate from.

**Treasurer Conine** asked attendees to consider how they would envision charging end users or consumers. Noting that the pilot program will be open to different types of solutions. For instance, if there is a business to consumer solution created, would the vendor further monetize the System by marketing and promoting certain products to incentivize customers to use the System. Treasurer Conine noted that those functionalities would likely be established during a secondary phase in the pilot program, and not necessary at the outset.

**Treasurer Conine** stated that once the RFP is released, communication will be limited.

**Treasurer Conine** thanked the attendees for participating and closed the meeting.