

Marijuana Banking Pilot Program Informational Industry Stakeholder Meeting

Thursday, October 3, 2019 at 9:00 a.m.
Grant Sawyer State Office Building
555 E Washington Ave. Room 4100
Las Vegas, NV 89101

Meeting Minutes

Treasurer Conine opened the meeting at approximately 9:05am.

Treasurer Conine provided a background on the functions of the Nevada State Treasurer's Office (the Office), noting that the Office manages banking for the State, and helps to solve other problems.

Treasurer Conine provided a background on Assembly Bill 466 (AB466), noting that a pilot program was put into place during the 2019 Nevada Legislative Session that requires the Office to set up one or more vendors for a closed-loop marijuana payment processing system. The pilot program requires the Office to put a system into place by July 1, 2020, which is a limited window of time to get everything done. The Office will look at vendors who have done this type of work before.

Treasurer Conine explained that the goal of the pilot program is putting a solution in place to solve issues related to banking in cash. Treasurer Conine expects that if it works and is cheaper than dealing in cash, the industry will adopt it, as it will be more effective. Treasurer Conine also emphasized that the pilot program will be completely voluntary, and that no business will be required to take part in it. Treasurer Conine stated that the pilot program should only be adopted if it makes more sense for the industry.

Treasurer Conine further provided that the State cannot incur any costs related to the pilot program. Instead, costs will be borne by vendor providers and industry participants. Costs should be less than what the industry is currently paying to manage cash. Treasurer Conine also stated

that there are likely some businesses that have already found solutions that work, whereas other businesses may still be having issues with costs associated with managing cash.

Treasurer Conine stated that attendees should please feel free to jump in with questions during the meeting and began the PowerPoint presentation.

Treasurer Conine explained the goals of the pilot program as noted in AB466:

1. Safe – there are inherent risks associated with handling cash. From public employees, to employees of businesses, dealing with large amounts of cash puts people at risk.
2. Transparent – the State is committed to transparency in the cannabis industry. Thus, the System should be set up to provide as much information as possible to set the gold standard. The System must be fully transparent for tax and regulatory perspectives.
3. Efficient – operational inefficiencies exist in cash-based businesses, including the obvious like having to go to the bank more often, but also more obscure such as industry participants requiring more startup capital to get started in the industry, which disproportionality affects those who are disadvantaged as traditional methods of financing aren't available. Also, the work done at State is less efficient when done in cash in that it takes longer and takes more staff time.
4. Lawful – The more transparent and more information that is known in the system, the less chance there is for bad actors and less risk there is for diversion.

Treasurer Conine explained how the Office envisions the system to work, noting that while closed-loop systems, such as those used for gift cards and vertically integrated businesses, already exist, the pilot program would be the first in the world for the cannabis industry.

Treasurer Conine explained the System is anticipated to work as follows:

- Cash is deposited into a machine that creates tokens. Cash deposit machines will be a distributed network of vaults that allow money in. Similar machines are already in use at the state level and at plenty of businesses. Essentially, money is deposited into a machine and is credited to account. Accordingly, a business would still have physical possession of the cash, as it's still housed within a cash deposit machine at their building, which would be unable to be physically accessed. The tokens that are created in response would

create a stable store of value that is perpetual until it's redeemed. Treasurer Conine presented the example of a casino chip – if a customer is playing blackjack, they provide money to a dealer and in return, get a chip of equal value back, e.g., a \$10 chip is worth \$10 if it's cashed in today, or 10 years from now.

- The function of the system is to generate a token upon money going in. \$1 will create 100 tokens, or \$0.01 will equal one token, so as to avoid the need for fractional tokens. Upon cash being deposited, users will have digital wallets that will be credited immediately or within a few minutes, depending on the technology. Tokens will then be able to be used to purchase goods and services among other members of the System. Treasurer Conine provided the example that if a user put in \$100 worth of tokens and wants to purchase products from a production facility, they could transmit their 10,000 tokens and receive the product in return, noting that all points in the transaction will stay within the State and that each token will have appended all information about the transaction, including the user that created the token, the date and time the token was created, the USD that was used to create the token and the location of the machine that created the token. Tokens will also append what the transaction was for, so information can tie into the Marijuana Enforcement Tracking Reporting Compliance (METRC) system. If a token receiver wants to then use tokens to purchase something, the token will be appended again, and again - each time a token is transmitted. Accordingly, all members of the System will be known to the State. For Anti-Money Laundering (AML) and Know Your Customer (KYC) reasons, anyone who receives a token will have to be registered. Vendors who don't necessarily have anything to do with marijuana, such as payroll companies, landlords, utility companies, and accountants will also be able to join the system and will be registered and known to the State. At some point the token will be sent to someone who wants cash or has no other need to use the token. For example, a landlord won't need tokens, so they would act as final vendor who redeems the tokens.
- During redemption, and at every part of process, the System will check to ensure a token's validity. During the redemption process, there will be a final check on the token's validity, including verifying the location the token was created at and whether everyone in the chain of the token's use has been verified. The System will flag the redemption if there were any issues with users who have interacted with the token or otherwise. If a

redemption is flagged, the System will allow for manual exceptions to ensure and establish a token's legitimacy, otherwise, all validations will happen digitally. Once the final check is complete, the System will redeem tokens for USD. Any redeemed tokens will then be taken out of circulation and will never be used again; however, a token's information will still exist. Treasurer Conine noted that the removal of tokens from circulation is how the System differentiates from the casino chip model, as casino chips can be redeemed and reused more than once.

- Treasurer Conine then explained how the cash will be handled. Specifically, cash will get held in a machine, and the vendor will provide regular services to pick it up. Pick-ups will depend on the volume of cash entered, etc. Using a network of cash deposit machines will mitigate risks related to handling large volumes of cash, as it creates a diversified portfolio of locations. Treasurer Conine provided the example that ATMs rarely get robbed because the locations are generally secure and yield a low return. After having picked up the cash, the vendor will then bring the cash to the State's banking partner, who will hold the funds in the same way that the marijuana tax funds are currently held. The cash will remain in the State's account until tokens are redeemed, at which point the payments will come through the State's banking partner, to the vendor, and back to the user. Treasurer Conine anticipates the process will be similar to that of a payroll company, but with tokens.

Attendee stated that the System sounds like it will imitate the blockchain system.

Treasurer Conine responded that that the System will be a stable token, that could be supported by blockchain, but not necessarily, it could also be just an exceptionally secure database.

Treasurer Conine further stated that blockchain is often linked to Bitcoin; however, Bitcoin is a currency, and has fluctuating value. Alternatively, the tokens created in the System will not have the same risks as currency, as the tokens will always be worth \$0.01. Noting that the \$0.01 may be worth more or less due to inflation. Finally, while some vendors have talked about using blockchains, and others not, the System would need to ensure that the ledger remains within the State of Nevada.

Attendee asked if the System would be built into existing vaults.

Treasurer Conine answered that decision will be vendor driven, as there may be some that are larger and require pick-ups less often, whereas some vaults may be smaller and require pick-ups more often. Treasurer Conine stated that for instance, a production facility with no consumer business will need pick-ups less often. The intent being that participants will have a vault at their business location if they'd like. The vault will accept cash in and distributes directly to a participant's wallet. If there's a business to consumer solution, customers will be able to create wallets too and allow for upstreams of cash to enter the system.

Attendee asked that essentially, a Garda or Brinks truck would come by 1-2 times a week.

Treasurer Conine answered, yes.

Attendee asked if the System could be used only to pay for things in the State.

Treasurer Conine answered, yes, to comply with federal requirements and for complexities sake.

Attendee asked what the process for counterfeit detection will be.

Treasurer Conine answered that counterfeit detection will happen at the vaults. The vault technology is substantially similar to that of a bill-breaker machine in which any fake dollars are caught at outset. Treasurer Conine anticipates that dispensaries will still check for counterfeits at the counter like they do now when receiving cash, and then when entering the cash into the vault, there will be a second check for counterfeits.

Attendee asked what the process is if a user make a deal with a vendor to purchase a product or service and the vendor doesn't come through?

Treasurer Conine answered that it will depend, and getting feedback on the issue will be beneficial. Feedback such as how often it happens, whether it happens with all vendors, or just particular ones would be helpful. The System could be set up for tokens to essentially be held in escrow, allowing a user to approve a transaction upon receiving the product at which point the tokens will transmit. However, the process will be vendor driven from a technology standpoint. Pilot program asks for iterative technology so the System can do basic functions, but more functionality can be added as it grows. While some vendors have spoken about wanting to

prepare a larger solution with METRC and HR components, pilot program will ask a vendor to ensure only the basics work first.

Attendee asked if there will be a requirement to use a specific bank that a vendor uses.

Treasurer Conine answered, no there will not.

Attendee asked if the Treasurer's Office had discussed the plan with local government and determined what their interest is.

Treasurer Conine answered that yes, the Office had support for AB466 during the legislative process. Everyone is looking for a solution for dealing in cash. The System should help create a seamless process, as the Program is not trying to create any additional steps of work. The Office will need to look at what type of information local governments and agencies such as the Department of Taxation, need so that when payment comes through to them, everything is reconciled. There seems to be two solutions to this – either the System does it itself, or the System will run through the State Treasury and pull the information on the backend. The intent of the System is that it is as effective as possible. IN order for the System to be as effective as possible, it will need to work with local governments and the Department of Taxation. Some local governments may be more willing to participate, whereas some may want to wait until the issues are worked through. It being a pilot program, the State Treasurer's Office doesn't expect that everyone who may want to participate will have the chance to at the beginning. Instead, the Office will attempt to cluster participants at the outset with the vendor. The Office will look for preexisting relationships between potential participants, otherwise, those potential participants will have to first establish a business relationship prior to the System being effective for them. This is why the program is fully voluntary – as to make sure it solves issues for the industry. The Office wants to maintain a smaller pilot program at the beginning, so when it works, it can be deployed further.

Attendee asked how a refund would work. For instance, if a local government provides an overpayment, how would that work functionally.

Treasurer Conine answered that a city could refund someone with tokens or refund them how they otherwise normally would – e.g., cutting a check for an overpayment. Essentially, it will need to be determined if it makes more sense to do something through the System, or to do it with a check or otherwise. The System shouldn't be a replacement of a process unless it makes the process easier.

Attendee asked if employees could be paid with tokens, and if so, how would employees redeem their tokens.

Treasurer Conine answered that one of the constraints of AB466 is that employees cannot be charged to use the System. A vendor who seeks to charge employees to redeem their pay will not be selected. The easiest way to pay employees in tokens would be to get payroll companies to use the System. Otherwise, employees would need to be registered with the System to receive their pay; however, that would likely happen during a second phase of program and not during the initial roll out, as it would include things like employee personal information, etc.

Attendee asked if the State will hold the money in the bank.

Treasurer Conine responded that yes, the State and the vendor will hold the money.

Attendee asked why the State wouldn't just create a state bank.

Treasurer Conine responded that Nevada wasn't creating a state bank mainly due to time constraints. Likewise, as other states have looked at the issue, and given that banks make money by taking in deposits, there are concerns of such a bank's viability given that it couldn't loan outside the cannabis universe, which then wouldn't be large enough, which in turn would require the bank to be subsidized elsewhere, such as by an additional tax on the industry.

Attendee asked if the Treasurer could further explain the turnaround time of cash deposits and redemption.

Treasurer Conine answered that upon cash deposit, the intent is an instant creation of tokens, noting that it should be a quick process where a token gets created and is in a user's wallet with the ability to transmit. At that point, the only check will be whether or not the user is a member of the System, and whether the dollar bill used to create the token is legitimate. The redemption

process will be more vendor specific, specifically how quickly a vendor's technology will be with certain checks upon a user seeking redemption, and whether there are any exceptions that were flagged. At that point, it will be up to how quickly the bank can move the funds. Because it's a two-part process in that tokens will be redeemed and then a request for money will come through, the goal is for the process to take approximately 2-3 days, with the caveat that it has never been done before, so it may take longer. However, the goal is to do it in the same amount of time as standard current processes. It's anticipated that the creation will be quick, but the redemption will be longer, which will become quicker as time passes and the process is worked out.

Attendee asked, hypothetically, if a user was a landlord who received tokens and then requested a redemption, would that money come to their bank account.

Treasurer Conine answered, yes within a couple of days.

Attendee then asked, under that scenario, would the landlord need to be a participant to do so.

Treasurer Conine answered that yes, any user who in any way interacts with the System will be known to the State as a participant in the System for purposes of money laundering, etc., and each participant will need to be vetted. Otherwise, if a token goes out and the State doesn't know where or who it's been with, a massive security risk will be created. A landlord will know when they get tokens and that the tokens are legitimate, because they otherwise wouldn't have been able to be transmitted because all steps would have to have been verified.

Attendee asked the Treasurer to explain how the wallets exist.

Treasurer Conine answered the wallets will essentially be a digital account that holds tokens and which allows for tokens to flow in and out of it. Treasurer Conine provided the example of viewing your bank balance online, noting that while they're different, the idea of use is the same.

Attendee asked what the system is based on, whether there's a prototype and whether it'll be done on the blockchain?

Treasurer Conine answered that it could be done on blockchain. Closed-loop payment processing systems are used on different systems, for example, when utilizing a transit authority, a user puts money into a machine to receive a ticket to ride. Similar also to the Starbucks app,

wherein a user's account is loaded with funds to purchase goods at Starbucks. Venmo and PayPal can be similar to the extent you a user doesn't use them to pay with a credit card. The pilot program will be an expansion, or logical extension of these examples to solve the problem.

Attendee asked for the Treasurer to clarify that the vendor will not be asked to use blockchain. **Treasurer Conine** confirmed, that no, a vendor will not be required to use blockchain, as the intent of the System is for the data to be secure, and how that's done will depend on the vendor-- some may use blockchain and some may not.

Attendee asked for an explanation of the security of wallets, and whether it will be on the State to manage.

Treasurer Conine answered that the State and vendor will have a ledger of all tokens, including where, when, and from which user they came from. Wallets are not intended to be something one could misplace. Treasurer Conine provided the example that if you lose your ATM card, you don't lose the money in your bank account. Because the System only allows transfers to users within the system, if you lose your account, or if someone broke in, the money would still need to be moved to someone else in the closed-loop, and the State would know who that is. This represents one of the security features. Like any other transaction, users would have security around which bank account funds are redeemed to, which will follow best practices.

Attendee asked how someone would receive a refund from a terminated token.

Treasurer Conine responded that the data around the token will still exist and that the token in the System will still be tied to the original transaction. The intent being that information on the tokens follow the money all the way through the system – so that if the Department of Taxation or the federal government needs to audit the process, there is full transparency.

Attendee asked if the wallet could be moved to different devices, or if the wallet is stuck on a single device.

Treasurer Conine confirmed that yes, the wallet can be moved and accessed on different devices. Treasurer Conine noted that during the first meeting, participants shared that they would

prefer to have access through PCs, phones, and Mac, and the functionality that could also tie the System and their wallets into other programs such as QuickBooks.

Attendee asked, if the SAFE Banking Act passes, and other banks will bank the industry, wouldn't the pilot program then be superfluous.

Treasurer Conine answered that yes, the Act would effectively allow for banking in states where the industry is legal. If the Act passes the Senate, then this system would not be necessary. The Act passing would be the best-case scenario. However, the State is currently stepping in because there's an imminent threat within the State and a problem that needs to be solved. Treasurer Conine stated it would be great if the problem is solved at the federal level. Treasurer Conine noted that that is why the State is doing the work and taking on the risk but not the cost. The State is doing so because it's not known when a federal solution will happen.

Attendee asked what the fees involved in the system would be.

Treasurer Conine responded that there cannot be a fee or cost to the State, noting that this point is specific to the pilot program and doesn't mean things can't change or a different decision be made down the road. Instead, vendors and users to the System will bear the costs. How fees are decided will be a question for the vendor, such as how much would need to be charged. Fees in the pilot program could be structured in different ways, for example, fees upon the creation of tokens, similar to credit card transaction fees. Fees could also be associated with the transmission of tokens, with a fee being charged each time a token changes hands. Fees could also be charged upon redemption of tokens. It's expected that fees will be some combination of those listed above, and that different vendors will have different ways of charging fees. The goal of the fees is that the System will cost less than whatever members of the industry are paying now related to the cost of cash management – significantly less, so that the industry is willing to participate and try the program. The pilot program is voluntary so if there's a vendor who can do it for an amount that would be more expensive than what the industry pays to handle cash currently, members of the industry shouldn't use it. Ultimately, it will be a business decision in determining whether it makes more sense to use the System.

Attendee asked, when it comes to being able to track for things like taxes, a business would never want to put all of their money into the System, so the System will only have partial monies of a business -- how would that fact be tracked through METRC.

Treasurer Conine responded that the Office is working with the Department of Taxation with the hope that, if there's an ability to do so with the System, if a business of has part cash and part tokens, all of the cash could be converted into tokens that would be sent to the Department of Taxation.

Attendee asked if will need to be considered that the Department of Taxation itself doesn't use METRC, given that the Nevada is the Cannabis Control Board, and that the Department of Taxation will still be responsible for collecting taxes

Treasurer Conine responded that yes, the goal from vendors is to provide whatever the receiver needs, but any capability will ultimately be vendor driven.

Treasurer Conine resumed the presentation by providing an overview of the timeline for the pilot program. First, the Request for Proposal (RFP) will be issued later this month which will follow the standard State Purchasing timeline. Additionally, the chosen vendor(s) will need to receive approval from the Interim Finance Committee. Ultimately, the pilot program must be up and running in July; however, the pilot program will be voluntary and limited in size with the intention to have a smaller program at the beginning to work through any issues which will then allow for the opportunity to go back to the Nevada Legislature in 2021 to fix any mistakes or make changes to further support the pilot program.

Treasurer Conine then asked for feedback from attendees, noting that some of the questions that will be raised have already been discussed.

Attendee asked why there wasn't specific dates provided on the timeline.

Treasurer Conine responded that the Office is unable to reveal too much information about the RFP until it is published.

Treasurer Conine first asked the attendees to consider how much of their revenues are devoted to cash handling. Treasurer Conine stated that the Office had received feedback that some facilities have lesser costs, such as in the 2% range, whereas others are as high as 15% once driving, transportation, and additional security is included. **Treasurer Conine** noted that the percentage will be a useful number so the information can be compiled to get a better idea as far as how expensive cash is to handle.

Treasurer Conine next asked the attendees to consider how many transactions they encounter each day. Noting that it's likely more for dispensaries and less so for cultivation facilities, as cultivation facilities deal mainly in business to business transactions. **Treasurer Conine** asked the attendees to further consider, if a vendor brings forward a business to consumer solution, how many customer transactions do attendees deal with from a volume standpoint – noting that while knowing dollar amounts may be helpful, the System should be able to scale functionally for dollar amounts, given a number of transactions.

Treasurer Conine asked the attendees to consider what would make them most or least likely to use the System, and whether there are things that would make attendees more interested in using the System. Treasurer Conine noted that the feedback will be useful because it allows the Office to target the needs of the industry for the RFP purposes. For example, the System must work with the Department of Taxation, and it would be a deal breaker if a vendor couldn't provide that function.

Treasurer Conine asked the attendees whether or not they believed their customers would use the System. From a customer's standpoint, the pros would be things such as only having to show up once with cash to create tokens for the future. **Treasurer Conine** asked the attendees whether they believed their customers would prefer to remain anonymous during transactions, noting that the State Treasurer's Office has received feedback that customers would love the convenience, but they otherwise would have no desire for the State to know who they are. **Treasurer Conine** noted that if there is no desire from customers to participate in the system, then the State will not move forward in finding a vendor to provide a business to consumer solution.

Treasurer Conine asked attendees to consider what other types of business entities they engage with that would benefit from the pilot program, such as utilities, payroll companies, landlords, suppliers, etc., caveating that the system wouldn't be able to transmit tokens to users who are located out-of-state. However, businesses interested in the System could create a Nevada presence in order to participate.

Treasurer Conine asked attendees to consider what they need the system to do so it's most effective. For example, if redemption of tokens through the System would take 5 days, vs. a System that requires waiting longer than 5 days to redeem – would the length of time be a deal breaker for participants.

Treasurer Conine asked for any additional questions, thoughts, or feedback.

Attendee asked if it was only cash that was part of the system.

Treasurer Conine responded that the problem that the State is trying to solve for is cash and cash being replaced with a token solves that problem. Noting, that while some vendors have ability to accept ACH, it would be hard to do within the borders of the State. It's likely that a user would be similarly prohibited from swiping a credit card, given the same prohibition. The System may have additional functions such as an ability to accept money other than cash in the future but they won't necessarily be included at the beginning of the pilot program.

Attendee asked why the State wouldn't just adopt one of the existing platforms as a payment method and create a system that everyone in the State can adopt and use, which would allow for wider adoption and solve the issue overnight.

Treasurer Conine responded that it was a good point; however, most tokens exist on a distributed ledger, which would go out-of-state. Otherwise, using an existing stable token as backing could work, but with a distributed ledger makes it more difficult. Likewise, the State isn't making the pilot program mandatory, and because of that the State doesn't want to use a product that is outside the relationship between the State, the vendor, and citizens. Treasurer Conine stated that there will probably be vendors who come with an existing solution and some vendors who build the System from the ground up.