

Marijuana Banking Pilot Program Informational Vendor Stakeholder Meeting

Thursday, October 3, 2019 at 1:00 p.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 1:03 PM.

Treasurer Conine provided that the purpose of the meeting is to talk about Assembly Bill 466 (AB466), a bill that passed during the 2019 Legislative Session that allows the State Treasurer's Office (Office) to pursue a closed-loop payment processing system pilot program. Treasurer Conine stated that the meeting is an opportunity for feedback, given that the Office will not be able to receive feedback once the Request for Proposal (RFP) is made public.

Treasurer Conine provided an overview of the meeting's agenda, which will include how the pilot program came about, the legislative intent, and how the Office sees the program to work. Treasurer Conine also noted that if anyone has additional pieces of feedback, to please reach out.

Treasurer Conine began the PowerPoint Presentation and provided an overview of AB466, which was signed by Governor Sisolak on June 5, 2019. AB466 establishes a pilot program in the State Treasurer's Office. The State Treasurer is one of six elected constitutional officers, and one of two constitutional financial officers for the State, the other being the State Controller. The Controller functions as the State accountant, and the State Treasurer acts as the investor and manages all cash flow functions.

Treasurer Conine explained that AB466 requires the State Treasurer's Office to setup a closed-loop system under the pilot program by July 1, 2020. Participation in the pilot program will not be mandatory for anyone. So, if dispensary or cultivation facility want to participate, they will be able to; however, the pilot program may need to be limited for size. From a business standpoint,

the pilot program must be cheaper than the current system that handles cash and make sense for all players, i.e., allows the State to receive tax revenues, allows users to save money, and allows vendors to make money. Treasurer Conine noted that there are private sector solutions that may be better, and if the federal government passes the SAFE Banking Act, the State won't likely need the closed-loop payment processing system. While there are some things that the SAFE Banking Act would do to increase functionality, there is no solution currently in place.

Treasurer Conine presented the goals of the pilot program from a legislative standpoint as follows:

- **Safe** – Cash creates an inherent public risk, by definition. For example, the State has no history in receiving tax revenue in cash. Furthermore, it's not safe for businesses to move cash around to pay for goods and services.
- **Transparent** – Currently the State uses Marijuana Enforcement Tracking Reporting Compliance (METRC) to track seed to sale; however, the closed-loop system (System) would create an additional layer of security and would allow authorities to recognize if diversion is present and how it's happening. The System will also establish citizens' trust.
- **Efficient** – The current all-cash system has standard operating inefficiencies. For instance, a business that deals in cash also has to get the cash from one point to another, which is inefficient. This is especially true in the large areas of rural Nevada that require additional travel time to get to. Also, the State now has to deal with cash in ways it traditionally hasn't before, such as employees being paid in cash. Treasurer Conine stated that another form of inefficiency exists through cash businesses: the fact that businesses have high opening costs is compounded by the fact that traditional means of banking aren't available to the industry. Especially so, as business owners don't just have to build a facility but build a facility that's safe to handle cash. This inefficiency creates a cooling effect on creating a diversified business economy because of how expensive it is, and the nature of cash-based

businesses in the industry has unintentionally limited the universe of people from who can benefit.

- Lawful – Due to the transparency of the System, users who will be part of the system will discourage bad actors from using the system, as users will not be able to send tokens to someone not on the System.

Treasurer Conine asked for any questions on the goals. Attendees had no questions.

Treasurer Conine presented the anticipated functionality of the System. Treasurer Conine explained that the “how” of the System will adjust along the way and differ between each prospective vendor. Treasurer Conine explained that the System will work as follows: Cash is deposited into a machine, enters the system, and tokens are created. As used in this discussion, tokens mean a stable store of value tied to the US Dollar (USD). One token will be equal to \$0.01 so prices won’t need to change or rounded off, and so as to not create the need for fractional tokens. The System could be on blockchain but doesn’t have to be. Tokens will get deposited into a wallet once USD is placed in a vault. Vaults are essentially reverse ATMs, where money goes in, and unlike an ATM, nothing comes out. Instead, a token is created - either through application programming interface (API) or built in an integrated system.

Treasurer Conine explained that the vaults will read the USD to create tokens. Upon creation of tokens, the System will store information such as the location of the vault, the date, time, the serial number of the dollar that was used to create it, and the account that it was created in. Some vaults may require a user to log into a machine, whereas others may only be used by one entity or individual, allowing the machine to be linked to the single user.

Treasurer Conine explained that when money goes in and tokens get created in system, the State will have access within the vendor’s system to view records about a token’s creation. Cash will still be in physical possession of the user by being in the a vault, but will be picked up.

Treasurer Conine explained that tokens will then be used to purchase goods and services amongst individuals on the closed-loop. For example, a dispensary would use tokens to pay a production facility for creating products, who could then use tokens to pay a cultivation facility that grows the plant. The pilot program will also include entities such as testing facilities that are outside of the vertical integration, and other entities that are used by the industry, such as

landlords, payroll companies, utility companies, etc. So, if a dispensary goes to a cultivator to purchase product, instead of having to bring cash, tokens can move from one wallet to the other, much in the same way as programs such as Venmo, PayPal, or a gift card.

Treasurer Conine explained that the vendor, either directly or indirectly will pick-up the cash from the cash deposit machines, with the intent to spread out and diversify the soft points of the system. **Treasurer Conine** provided the example that people don't rob ATMs because it's hard to do and the return isn't that high, which is why vaults will be used, as instead of having to transport cash around, soft targets will have single locations spread across the State. The pilot program will exist in a smaller area with the final stop being with the State. Cash will get picked up from the participating locations while tokens are still being used in the system.

Treasurer Conine explained that at some point, a user will pay a vendor who doesn't need tokens for anything else. For example, a landlord wouldn't be able to use the tokens, and would instead need to redeem them for cash. Before this point, the cash will have been transported to the State's banking partner. That banking partner may be the typical banking partner, or it might be another bank. Currently, the bank accepts the money because it's tax funds, not cannabis funds. Similarly, in the pilot program, money will come in for a number of things, and will be exchanged for tokens. When a token gets redeemed by the final vendor, tokens will have been interacting with the System at each point of contact to:

1. Check the veracity and ensure the token is real; and
2. Ensure every user who has interacted with the token is still in compliance. If a problem with a user exists, the System will flag all tokens the user has interacted with, so when the user tries to redeem tokens, the System will flag the redemption.

The token will have been appended along the way to understand who and how many users have interacted with it, where it was created, and what it was used for. This will help audit functions from a tax standpoint, and to allow for the ability to unwind transactions. Then, when the final vendor requests redemption from the State, there will be checks along the whole chain to ensure each token is valid. After the process of redemption happens, tokens will be destroyed and unable to be recirculated. Unlike the example of a casino chip, tokens can only be redeemed once, and will then be destroyed; however, information on the token's history and any appended information will be saved due to anti-money laundering concerns. Treasurer Conine noted that there may be different solutions that exist; however, this is how the Office envisions the System

to operate. Treasurer Conine further explained that at the point of redemption, the Office will receive a redemption request through the vendor and will send money back to whoever had redeemed the token.

Attendee asked if every dollar in the system needs to be backed, similar to how a bank works. **Treasurer Conine** answered yes, and every dollar would be, as the funds in an account will be held in a bank account.

Attendee asked if the Office anticipates collecting every single dollar into a cash deposit machine.

Treasurer Conine answered yes, because it's a voluntary program, and while it's not expected that user's put all of their cash into the machine, but that they put enough cash in to cover costs related to those who they can pay through the System.

Attendee asked if the State would manage the cash pickup process.

Treasurer Conine answered no, the vendor, either directly or indirectly will provide the cash pick-up, which will likely be the costliest part of the System. Pick-up is intended to be through the vendor and although the state will help push from a pricing standpoint, pick-up will still be a vendor's responsibility.

Attendee asked if the banking partner will have oversight of the RFP.

Treasurer Conine answered that yes, different banking partners feel differently about different things. Some vendors that the Office has spoken to have existing banking relationships. Either way, the State will have to ensure that from a safety standpoint, the money is transferred appropriately, and the banking partner is comfortable.

Treasurer Conine noted that the meeting is just the beginning of a dialogue, and attendees should please send any questions, thoughts, or concerns within the next week or so.

Treasurer Conine provided an overview of the timeline, noting that the RFP will go out in October. No specific dates were included in the presentation due to rules of the RFP process.

Treasurer Conine further explained that after the RFP is released, there will be a deadline for proposal submissions. Next, there will be an internal evaluation process, which will look at the things the vendor will have to be able to do, which will be scored based on some sort of quantitative metric. Then, vendors will be selected to do presentations. Next, the chosen vendor will be brought to the Interim Finance Committee (IFC) for a second check on the process to better understand who the chosen vendors are and how the pilot program will work. Presenting to IFC will also allow the Office the ability to no longer proceed with the pilot program if the SAFE Banking Act passes and the pilot program is no longer necessary. Finally, the chosen vendor will be presented to the Nevada Board of Examiners, the State body that approves all state contracts, with the anticipation that the System will be up and running by July 1, 2020.

Attendee asked what the vendor due diligence process looks like.

Treasurer Conine responded that the RFP will include some questions and will also provide an opportunity to ask questions, noting that it is a very open process with all questions being answered publicly. The RFP will then have an evaluation committee who reviews the proposals. Otherwise, the RFP will be self-explanatory. To the extent there are further questions on the RFP, they will be shared with the group.

Treasurer Conine noted that the intention of the System, once up and running, is to provide the simplest solution imaginable with a small number of locations. It's anticipated that locations will be determined by taking applications from dispensaries and others in the industry who wish to be on the closed-loop. Treasurer Conine also noted that the Office will try to find businesses who are already working closely with each other, so as to not have to establish business relationships along with establishing the System. The intent of the pilot program is to start really small with one or more vendors. Because it hasn't been done before, the Office may allow for multiple options for the System, noting that the best vendor with the best solution may not be apparent through the RFP process, so the State will reserve the opportunity to choose one or more in order to determine the best functions, so in the end the best solution can be provided. At which point, the pilot program will have to be expanded through legislative action.

Attendee asked how the dispensaries reacted to the idea of the System at the meeting held earlier.

Treasurer Conine answered that the original idea came about last year when thinking about things the State needed to solve. From employees, owners, etc., there is a large public need for a solution. Noting, that there's no way to know what that solution is. Other places have tried setting up banks, credit unions, while others have also talked about setting up a closed-loop system.

Attendee asked if there was a big need, and everyone wanted to participate, how the State would choose who gets to participate.

Treasurer Conine answered that in a broad sense, there are some businesses that are so small and so close from a margins standpoint that they won't be able to take on the risk in deploying a system that's unproven. There are also some businesses that are so big, they've had to come up with a solution on their own and won't need the System. In removing those two groups, there will be entities that are the right size and believe they may be able to spend less than they currently are for cash handling. Within that subgroup there's a group that will be willing to take on the risk to try a new product. However, it's anticipated that in the beginning there will likely be more entities who wish to participate than necessary.

Treasurer Conine then presented the fees of the pilot program, noting that AB466 has two limitations on fees. First, the State cannot make money on the System. Although there will be an application fee for the RFP, it isn't likely to be significant. Instead, vendors will provide a fee model on how they will get paid through the System. For example, there could be fees collected upon redemption of tokens, creation of tokens, or per transaction like in the case of credit cards. Treasurer Conine suggested that fees would likely want to be set up incrementally so as to allow the System to scale effectively. Next, Treasurer Conine noted that if the System ever gets to a point where an employee of a legal cannabis business can get paid through the System, the employee cannot be charged a fee to receive their paycheck. Feedback from the industry showed that many entities currently use HR systems such as ADP to cover the paperwork and administration but ultimately pay employees in cash. Treasurer Conine reiterated, that to the extent an employee is paid in tokens, they cannot be charged to redeem them.

Attendee asked if Treasurer Conine and/or the Office had any concerns regarding the System.

Treasurer Conine responded that the System must be within the bounds of the state, including any servers, which would include any distributed ledger, which may or may not work.

Regardless, the Office will turn to the vendors for a solution. Treasurer Conine noted also, that the State's Attorney General's Office will review the System, as well, to ensure there are no outstanding legal questions.

Attendee asked if the System will be doing know your customer (KYC) checks on all users.

Treasurer Conine noted that the System could have two potential options, a business to business solution, and a business to consumer option. A user who is part of the business to business system will be fully known and transparent. No user on the System would be able to transmit tokens to anyone who's not on the System. On the consumer side, customers may be less willing to give their information, so there may be limitations imposed to mitigate issues. For example, vendors could limit the number of tokens a user is able to create in a certain amount of time, such as no more than \$500 in tokens per month. However, there will still be information from consumers that will need to be known.

Attendee stated that it seemed like the System has multiple needs, therefore, could one company create and manage the wallets, whereas another manages the technology, whereas another covers the KYC concerns.

Treasurer Conine answered that the State will not dictate having vendors do multiple pieces, especially so as to not force vendors to work with others they may not know.

Attendee asked if the State is looking to solve issues between dispensaries.

Treasurer Conine answered, yes, due to tax reasons, the business to business solution is the larger concern.

Attendee stated that the System would likely be collecting much more than tax payments in the System and asked how the money would be transmitted at the end.

Treasurer Conine answered that the method of payment will differ from vendor to vendor and how the System is set up; however, in the mechanical sense, a user will redeem a token, at which point a State-owned bank account will either cut a check or provide an ACH or electronic transfer to the final token redeemer's account.

Attendee noted that there's likely an advantage to using the name of the State. **Attendee** asked who will own the rights to trademark and whether the vendor will be able to communicate to users that the System is backed by the State.

Treasurer Conine answered that from a functional standpoint, the State will act as the vendor's partner; however, he wasn't exactly sure who would own certain rights, noting that it would have to be worked out during the contracting phase.

Attendee asked if the Office had received interest in the System from other states.

Treasurer Conine answered, yes.

Attendee asked if Treasurer Conine was willing to share which states were interested.

Treasurer Conine answered that no, while he had received interest from other states and municipalities, nobody has yet figured out a solution; however, he expects that if the State can come up with a solution, it can be exported in the same way Nevada's regulatory structure for gaming has been exported.

Attendee stated that it's likely that the SAFE Banking Act, if passed, would end the solution Colorado is looking at. **Attendee** asked if it would be possible to maintain the pilot program if there's a federal or state solution in the future.

Treasurer Conine noted that it's an interesting question. The goal of the State is to get something that works. The State will spend a lot of time to determine whether the System works or not, not whether it's deployable in the future.

Attendee asked how likely it is that the SAFE Banking Act will pass.

Treasurer Conine noted that while he has no inside knowledge, he wouldn't expect it to pass in the near future. Given comments made from Senate Leadership related to the hemp industry, it's

unlikely enough to pass that the dangers and inefficiencies that currently exist within the industry are more pressing. However, if it does pass, it will provide a great solution.

Attendee asked if the State is limiting the way tokens are bought to cash, or whether the Office is open to other methods of money that enters the system.

Treasurer Conine answered that the State will go with what works, and if something can be added that doesn't hurt the system, is easy, and doesn't add any additional complexity or risk – that would be great but would not be the focus of the pilot program.

Attendee asked the Treasurer to clarify that other payment options aren't the focus, but the cash.

Treasurer Conine answered that yes, the prevalence of cash creates safety, efficiency, and legal concerns, but mostly safety. Individuals who are not professionally trained to handle cash and not trained law enforcement officers are moving money around from place to place. The pilot program is trying to solve that problem first and in doing so, will solve some other ones; however, the Office's focus is the cash and the Legislature's focus was the cash, too.

Attendee asked if the State would facilitate vendors talking to each other if certain vendors could only provide certain requirements under the RFP?

Treasurer Conine answered that he didn't think so but will try to find out.

Attendee asked if there was a general marketing strategy to let dispensaries know about pilot program, or if there are relationships with the industry already.

Treasurer Conine responded that he would assume the latter rather than the former. The Office is using stakeholder meetings, and standard channels to reach out to the industry. The Office is also utilizing the Department of Taxation, as it knows all industry participants already, as the industry participants are already registered with Department of Taxation. By knowing that, the Office will be able to get the word out. Treasurer Conine added that from the standpoint of the pilot program, if the offering is compelling, the industry will want to participate. Down the road, it will likely be a market-based solution, which the State could promote given savings to participants, or because it works, and people will want to use it.

Attendee asked if soft costs would be built into the application fee.

Treasurer Conine answered that yes, the Office's intent is to cover staff time and some travel costs, but do not look at application fees as a profit center.

Attendee asked if the RFP needed to address a business to consumer solution, and whether the vendor or the Office will address the security concerns.

Treasurer Conine answered that other State agencies will have access to the information in the System, with the expectation that the use of the System will be just as transparent as other functionalities of it. Users of the business to business solution will be fully transparent, while it's still to be determined what information will be used in a business to consumer solution.

Attendee asked if there will be much coordination with the Department of Taxation and other agencies.

Treasurer Conine answered that yes, the State needs a system that works with the Department of Taxation to alleviate their safety issues and inefficiencies. The vendor will need to work with the Department of Taxation, which will be a black and white piece of business. It's intended that municipal taxing agencies will be users, too, but the pilot program will be voluntary for them.

Attendee stated that CRV licenses are not public and there's no way to verify information without direct access. Attendee asked if there will there be a way to verify these licenses.

Treasurer Conine answered that yes, there will have to be a way to verify this information, noting that it may be a process that happens internally. For example, a user has a number for their wallet that links to the registration. With that being said, users don't have to be a registered cannabis business to take part in the System. So, by definition there will be participants who aren't in the industry. For instance, a sandwich shop next to a dispensary could take tokens.

Attendee asked if the Office wants this to be used larger than the purview of underbanked businesses.

Treasurer Conine answered yes, but not fully.

Treasurer Conine resumed the presentation, explaining that there were some other questions the Office wanted feedback on such as the volume of user transactions that will be needed to support the System, as it's expected that, at least initially, there won't be a lot of money in the system; however, vendors shouldn't have to lose money to create the System. Treasurer Conine also asked attendees to think about what they might see the costliest part of the System to be, noting that he expected it to be the cash pick-up requirement. Treasurer Conine also asked attendees how they would envision charging users, adding that vendors will have to speak to the question during the RFP. Likewise, Treasurer Conine asked how attendees would further monetize the System, for instance, selling tokens at a discount or creating certain promotions– with the caveat that those scenarios would exist primarily in the business to consumer solution.

Treasurer Conine asked attendees if they had any other questions.

Attendee asked if the State would be open to an open-loop off-ramp of the System.

Treasurer Conine responded that he hadn't thought about it, and that the State would be conceptually interested in everything. An open-loop off-ramp could be something that's spoken to in a vendor's proposal but didn't think it'd be weighted very heavily, as the boundaries for what the pilot program is looking for and what isn't necessary will be relatively clear in the RFP. What the System can do will depend on vendor ingenuity, which won't count against a vendor, unless a vendor otherwise can't do what the RFP has asked.

Attendee asked if vendors will be exempt from money transmission licensing.

Treasurer Conine answered that he couldn't necessarily speak to that, and that vendors should speak to an attorney about it. Treasurer Conine expected it would depend on a vendor's product.

Attendee asked if the name of the bank will be disclosed in the RFP.

Treasurer Conine responded that no, it will not, because it's not yet determined which bank will act as the banking partner for the pilot program. It could be a banking partner of the vendor, or it might be a State banking partner.

Attendee stated that it seems that the banking partner will have a lot of say and control, so waiting until after the RFP may exhaust the process.

Treasurer Conine responded that the Office is open to talking to vendors' banks if available to talk to. Currently, the State has five primary banking relationships. Each of the five know that the Office is talking about the pilot program; however, none are willing to commit at this point.

Attendee asked if those banks will also offer accounts to industry businesses.

Treasurer Conine answered that he did not know.

Attendee asked how much time vendors will have to reply to the RFP.

Treasurer Conine answered, enough – as he could not disclose exact dates and timelines prior to the release of the RFP.

Treasurer Conine asked if there were any other questions. There were not.

Treasurer's Office Staff asked everyone to please sign in, and to please visit NevadaEPro to sign up if interested in being a vendor.