Marijuana Banking Pilot Program
Informational Industry Stakeholder Meeting

Monday, September 30, 2019 at 9:00 a.m.
State Capitol Building
Old Assembly Chambers, 2nd Floor
101 N Carson Street
Carson City, NV 89701

Meeting Minutes

Treasurer Conine welcomed the meeting at approximately 9:15am

Treasurer Conine began by stating the point of the meeting is to talk about a closed-loop payment pilot program for the cannabis industry created through Assembly Bill 466 (AB466). Treasurer Conine noted that the point of the meeting is for stakeholders in the legal cannabis business can learn about the pilot program, as well as an opportunity for the State to receive information from Stakeholders to determine what types of functionality the closed-loop payment processing system (the System) should have. Treasurer Conine stated that the meetings should be as collaborative as possible, noting that the pilot program will be entirely voluntary to participate in.

Treasurer Conine provided background on AB466, noting that it was put into place during the last legislative session and establishes a pilot program in the Treasurer's Office (the Office) for a closed-loop marijuana payment processing system. Treasurer Conine provided background on the State Treasurer's Office, which manages all banking for the State, including managing the banking relationship with Wells Fargo, cutting checks, and taking in money from tax payments. Treasurer Conine noted that when the State legalized marijuana, the State suddenly had to take in significant amounts in cash. Treasurer Conine noted that it's more difficult to manage a cash-based business. Historically, the State has been able to because we keep tax revenue in the bank, with the goal being to take those opportunities and expand them.

Treasurer Conine explained that AB466 requires the Office to create a pilot program by July 1, 2020 and to contract with one or more vendors to provide the functionality. The Office will look for partners to test the System and ensure it works. The Office anticipates that, like other innovative ideas, there will be things that can be done better in a secondary version of the System. The pilot program will run until July 1, 2023, at which point it will be determined whether the pilot program solves the issues for the industry.

Treasurer Conine began the presentation by outlining the goals of the pilot program as laid out in AB466:

Safe - The current system of handling cash is unsafe as it requires industry businesses to function as armored cars. Cash-based businesses are not good from the State's perspective, either, as state employees are required to take in hundreds of thousands of dollars in cash each week and keep it safe. State and local facilities just aren't prepared for the influx of cash. Also, cash-based business models require a business to pay its employees in cash, which is not an effective solution. Treasurer Conine stated that the pilot program will seek to find a way for legal cannabis businesses to be banked in the more traditional sense.

Transparent - While Marijuana Enforcement Tracking Reporting Compliance (METRC) exists, the pilot program will ensure that more attention is paid to the transparency of the cannabis business, much in the way gaming is handled in the State. The System will be as transparent as possible.

Efficient - The pilot program will look for a solution that speeds up the current process of dealing in all cash. Thus, instead of having to pay suppliers in cash, they can be paid through the System.

Lawful - Given the transparency of users and transactions, the System will discourage bad actors from taking advantage of the current cash-based business model. A closed-loop payment system also allows users to prove that taxes are being paid and that products are not being diverted across state lines - each of which was important to the Nevada Legislature in passing AB466.

Treasurer Conine then introduced the anticipated functionality of the System, noting that at this stage, it is a conceptual idea, and that vendors may employ other technology that is different. **Treasurer Conine** explained that during the first step, cash is deposited into a machine and in return, the System creates tokens. Cash will be deposited into vaults that are distributed across the state. Treasurer Conine anticipated that the tokens would more often be created at the dispensary level, as they deal with the most cash. Cash deposit machines, or vaults, operate effectively like a reverse ATM in that when cash comes in, the System creates a token.

Treasurer Conine explained that tokens are not Bitcoin. Bitcoin is a digital currency that has supply and demand features without an infinite supply, so people are willing to pay more to own it. On the other hand, tokens in the System will be stable and are most comparable to a casino chip. For example, a $1 casino chip is worth $1 whenever it's turned in and represents a store of value, not a currency.

Treasurer Conine stated that tokens will be created at a rate 100 per dollar and will be applied into the wallet of the user that created them. Tokens will have a 100:1 against the US Dollar so there will be no need to split tokens, and removes the risk of rounding errors. After creating tokens, cash is held in the vaults, or cash deposit machines, while the tokens are held in a digital wallet of the user who created them. Treasurer Conine explained that the digital wallet will function similarly to a Starbucks loyalty account, which is a closed-loop system, as well. Tokens are then used to purchase goods or services on the System. A user would move the tokens from their own wallet, to their vendor's wallet, without having to transmit cash and invoice their vendor. Tokens can be reused for multiple transactions. For example, to pay a utility bill, rent, and then taxes. Tokens will be able to be transmitted through the System until they come to an end user who has no other need for the tokens and instead needs the value of the tokens in cash. **Treasurer Conine** explained that the cash that had initially been deposited to create the tokens would have gone from the vaults to the vendor, then to a State account where it is held. **Treasurer Conine** further explained that when tokens make it to an end user who request redemption, there will be a check on the validity of the tokens. Treasurer Conine noted that at each transaction, any user who interacts with tokens will be validated for know your customer (KYC) and anti-money laundering (AML) concerns. Tokens will retain all information related to

the users who have interacted with the token. Furthermore, upon creation of a token, the System will log when, where, and the user that created the token. Tokens will be appended with information along the way during the course of transactions to avoid criminal elements. Effectively, anyone who can create a token will be known to the State which will also know what the user has used the token for.

Treasurer Conine further provided that when tokens get redeemed, they will expire and be unable to recirculate. Unlike casino chips, tokens will not be able to be reused and recirculated once redeemed for cash. Once a final user request for redemption is validated, the vendor will transmit a request to the State to pay the user. The transmission of funds from the banking partners will allow for a clean, simple, and relatively quick transmission. Although the redemption may be slower than a cash transaction, it will allow the industry to be banked.

Attendee asked how much the System will cost.

Treasurer Conine answered that the State is asking vendors to come up with different models that for charges and fees. For example, a cost per transaction (like credit cards), charging upon creation, or a charge upon redemption. The pilot program is limited in that the State can't pay for anything. Instead, costs will be borne by participants and/or by the vendor, who may seek to establish a permanent program. The goal is to be cheaper for users than the current cost of handling cash. Don't know exactly what the cost will be for users, but it will exist. Treasurer Conine also explained that costs will not be borne by employees. For example, if a payroll company uses the System to cut a check to an employee, the employee will not bear the costs of receiving it. Instead the costs could be borne by an employer or the vendor, but will not be able to require employee to pay any associated costs.

Attendee asked what other information could be attached to a token from a (KYC) standpoint.

Treasurer Conine answered that the goal is to provide whatever information that can be appended to the token. Treasurer Conine anticipated that it should be an infinite amount of information; however, whatever information is seen as important should be included. Treasurer Conine noted that the goal is that the information of every transaction, including what was sold and redeemed, will be appended to a token, which, from a regulatory standpoint, will allow for a secondary check on transactions.

Attendee asked if there was a specific app that would need to be used to get paid from the System.

Treasurer Conine answered that it will likely be vendor driven, but will not require a secondary system for to use.

Attendee asked if users would directly or indirectly be able to use tokens to pay taxes.

Treasurer Conine responded that the main goal of the pilot program is to create a system to make tax payments more efficient.

Attendee asked if the System could be used to pay federal taxes.

Treasurer Conine stated that likely, tokens will need to be redeemed for a check from the State, which then could be used to pay federal taxes. **Treasurer Conine** also noted that the SAFE Banking Act is currently making its way through Congress. If passed, the Act would solve many of the problems the pilot program seeks to solve. Accordingly, if passed, then the pilot program will become unnecessary.

Attendee asked what would happen if someone didn't use their tokens.

Treasurer Conine answered that it hadn't yet been determined; however, the tokens would likely escheat to the State as unclaimed property.

Attendee asked if the tokens are digital.

Treasurer Conine answered that yes, they will be fully digital.

Attendee asked if it's been discussed to use taxes paid by the industry to pay for the pilot program.

Treasurer Conine answered that no, the costs must be borne by the vendor at the outset. In the future, utilizing tax payments from the industry may be something to consider; however, the pilot program will be small as to not create a widespread system that doesn't work.

Attendee asked what will happen with the interest accrued on the cash.

Treasurer Conine answered that was to be determined, as well.

Treasurer Conine resumed the presentation by providing an overview of the anticipated timeline. In October 2019, the Request for Proposal (RFP) will be published, during which there will be a time for questions, and potential vendor presentations. Vendors will then be selected by an evaluation committee. The proposed vendor will then need to be approved by the Interim Finance Committee (IFC), and becomes it's a State contract, the vendor will need to be approved by the Board of Examiners. The contract will then begin a few months before July 1, 2020.

Treasurer Conine stated that the goal is to have two vendors working on the pilot program at the same time to create a business to business solution and a business to consumer solution.

Treasurer Conine presented questions to the attendees for feedback.

Treasurer Conine asked what percentage of attendees' revenues are devoted to cash handling. Treasurer Conine anticipated that costs for dispensaries are between 3% and 15% of revenue, but asked cultivation facilities attendees to determine how much they spend.

Attendee answered that cash handling is relatively limited on the cultivation side.

Treasurer Conine asked attendees to consider which ways they have found to deal with cash-handling.

Treasurer Conine then asked how many transactions attendees see in a typical month, inclusive of transactions such as paying a utility bill or selling a product to another business. Paying utility bills, selling products, etc.

Attendee answered that transactions are done daily and that attendee visits the bank on a daily basis.

Another attendee explained that there is often difficulty in receiving traditional banking services.

Treasurer Conine asked attendees many transactions are done on a daily basis.

Attendee answered approximately 10-15 transactions are completed per week.

Another attendee answered that their business sees approximately 20-30 transactions per week.

Treasurer Conine asked attendees how often they invoice customers.

Attendee shared that it's often a few times per day, as the attendee's business sends invoices per order.

Treasurer Conine stated that similar information will be helpful, as it will provide scale to the System.

Treasurer Conine asked attendees to think about what functionalities of the System could exist to make it more usable and less usable.

Attendee asked how the System would be different than how cash is moved now, as cash would still need to be moved to the bank.

Treasurer Conine answered that the goal would be to catch the cash upstream, such as at dispensaries, who likely deal with more cash, so that tokens could be created at the outset, instead of having to deal in cash, as currently happens. Treasurer Conine noted that vaults would be installed at each location participating in the pilot program so users won't need to transport cash to a vault location, as that would effectively defeat the purpose. While that may be required due to the number of participants, the goal is to have vaults where the money shows up.

Attendee asked if there would be an opportunity for a utility to use the System.

Treasurer Conine answered that yes, anyone who needs to get paid in the legal cannabis industry would be good to include on the System. Users that are not just direct industry participants, but consultants, employees, taxes, utility companies, landlords, etc. should be included. In order for the System to be fully efficient, the pilot program must remove the need for participants to exist outside of it. Some vendors may have longer lead times from accepting these types of payments, but intent is that all interested parties are included on the System eventually.

Treasurer Conine asked if attendees used payroll companies.

Attendee answered that they use payroll company for the mechanics of establishing payroll, and handling taxes and withholdings but ultimately complete the transaction by paying employees in cash.

Treasurer Conine noted that instead of that, tokens could be transmitted to ADP, who would pay employees.

Treasurer Conine asked if there were other participants who should be included on the System.

Attendee answered that it would be useful for suppliers to use the System.

Treasurer Conine asked whether suppliers are primarily located in Nevada, or out-of-state.

Attendee answered that some suppliers have a local presence, while others were out of town, including in the Eastern United States.

Treasurer Conine noted that the System will have to stay in state, so the out-of-state suppliers would not be eligible to use the System.

Attendee stated it would be helpful for users to receive a check after having redeemed tokens to use to pay federal taxes.

Attendee asked where the System's servers would be maintained.

Treasurer Conine stated that it will be vendor dependent, although the location will have to be within the State, and that the System likely won't be a distributed ledger given the need for data to travel out-of-state.

Attendee asked about a presentation that was done during AB466's bill hearing during the Legislative Session, and whether the presenter's bank will be the banking relationship users of the System will have to use.

Treasurer Conine stated that that the individuals who presented during the bill hearing won't necessarily be the vendor chosen during the RFP process, further, the banking relationships will likely be done through the State's banking partners.

Attendee asked which bank account the funds will come from.

Treasurer Conine stated that it will be worked out through the process, and that the account may be owned by the vendor, or by the State.

Treasurer Conine asked attendees to consider whether or not their vendors would be interested in getting paid in something other than cash.

Treasurer Conine asked attendees to think about whether there were other entities that attendees interacted with who may want to be included in the pilot program.

Treasurer Conine asked if there were things that would be more useful vs. not if included on the System. Treasurer Conine asked specifically for attendees to think about reporting, and what things could be useful to them if included on reports provided by the System, such as what tokens were used for, and other things such as the day of the week in which the most tokens were created, etc.

Treasurer Conine asked attendees if there was additional functionality, like the ability to generate a payment directly to the federal taxing agencies that would be useful.
Attendee stated that a connection to QuickBooks and a connection to METRC would be useful.
Treasurer Conine asked if most people use QuickBooks.
Attendee stated that they use XERO, whereas other attendees stated they use QuickBooks.

Treasurer Conine asked if there were any other functionalities that could be useful. Treasurer Conine asked if most banking decisions were made from a PC/Mac or a phone app.
Attendee stated they had no preference, but would prefer all options.

Treasurer Conine asked attendees to please reach out if there was additional feedback, as the goal of the pilot program is to make it cheaper than it is now to manage cash.
Attendee thanked the Treasurer for putting the pilot program together.