



State Fiscal Note for Bill Number: 2021-H-5425

Date of State Budget Office Approval:

Date Requested: Tuesday, February 23, 2021

Date Due: Friday, March 5, 2021

Impact on Expenditures		Impact on Revenues	
FY 2021	Indeterminate	FY 2021	Indeterminate
FY 2022	Indeterminate	FY 2022	Indeterminate
FY 2023	Indeterminate	FY 2023	Indeterminate

Explanation by State Budget Office:

This bill establishes an economic growth blockchain act, which sets regulations for the sale of hemp, virtual and digital assets, and establishes depository banks for these purposes.

This bill would establish a Rhode Island blockchain technology advisory council consisting of thirteen members who have the responsibility to implement and build a filing system that could track all regulated transactions for numerous agencies.

This bill would establish a track and trace program for reporting the movement of regulated products. This bill would establish the state's hemp program as defined under chapter 26 of title 2, entitled "Hemp Growth Act," and as related within chapter 28.6 of title 21, "The Edward O. Hawkins and Thomas C. Slater Medical Marijuana Act."

This bill would establish a requirement for applications to be filed by any person who makes an innovative financial product available to consumers in the financial technology sandbox. This bill would authorize criminal history record information to be disseminated by criminal justice agencies in the State, for these applicants. This includes a fee requirement though exemptions are also considered. These fees would be deposited into the financial technology innovation account, which this bill would also establish. The funds within the account would be invested by the State General Treasurer and all investment earnings would be deposited into the general fund.

This bill would establish special purpose depository institutions which would be organized as corporations under chapter 1.2 of title 7, entitled "The Rhode Island Business Corporation Act." These special depository institutions would establish compliance with applicable federal laws and must apply to become a member bank of the Federal Reserve System. These institutions would not be authorized to make loans but would be able to purchase debt obligations consistent with provisions of title 19. A contingency account is required to be maintained by the special purpose depository institutions, to account for unexpected losses and expenses, with a possible requirement that payment from contributions from depositors would sufficiently fund the account.

Comments on Sources of Funds:

Given the range of agencies specified and its cross-agency impact, the Budget Office assumes that this bill would impact general revenues, restricted receipts, as well as other funds.

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Tuesday, June 29, 2021

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*Summary of Facts
and Assumptions:*

There are three elements of this bill that could have a significant cost. Due to the innovative nature of these initiatives, it is not possible for the Budget Office to determine the costs for any of these proposals with any degree of certainty.

First, the bill creates a 13-member Rhode Island Blockchain Technology Advisory Council. The Council is functionally structured as an unpaid advisory council but has extensive charges such as developing and implementing an “industry-leading filing system” that uses blockchain technology and includes an application programming interface. Even if the State ultimately purchases a blockchain system from a vendor, this is a massive undertaking for which there is no experience in the current State workforce. The bill requires the Council to coordinate with 20 named State agencies, but the Budget Office assumes that unpaid members of an advisory council will be unable to implement the filing system without a substantial staff dedicated to the task. This could require the creation of an entire division within the Department of Business Regulation (DBR) or another agency.

Second, the bill requires the Council, DBR, and the Secretary of State to develop a blockchain track and trace program for hemp cultivation and medical marijuana. While there are several states that have track and trace programs in place for cannabis, most notably California, the Budget Office is not aware of any state that uses blockchain for this purpose, although there are private companies offering those services. It is not possible to estimate the costs of implementing a blockchain track and trace system without issuing an RFP to solicit quotes from vendors and without extensive analysis of what would be required to implement and operate such a system. It should be noted that this section would be difficult to implement without further legislative clarification regarding the distribution of responsibilities between DBR and the Secretary of State. Involvement with the hemp cultivation program is far outside of the current responsibilities of the Secretary of State.

Third, the bill would establish a financial technology sandbox that would allow Rhode Island-based companies to make innovative financial products and services available to consumers with waivers from certain statutory and regulatory requirements; a \$500 application fee would be charged. Financial technology sandboxes have been enacted in Arizona, Florida, Kentucky, Nevada, Utah, West Virginia, and Wyoming, but the Budget Office was unable to identify the full implementation costs experienced by those states or the application levels to be able to project activity and revenue in Rhode Island. These programs are too new to draw significant lessons from. This section also creates a duplicative structure where the applicant must apply to either DBR or the Secretary of State depending on the agency that administers the statute or regulation, which would require both agencies to establish parallel administrative structures and could potentially lead to significant applicant confusion.

Fourth, the bill would establish the category of special purpose depository institutions, which is intended to allow banks to offer digital asset products and services. Wyoming is the first state to allow special purpose depository institutions and has chartered two such institutions to date. It is not possible to determine how much demand there would be in Rhode Island, given the critical early-mover advantage Wyoming has gained. DBR would be allowed to set an application fee by



*Summary of Fiscal
Impact:*

regulation up to the costs incurred in reviewing the application, but it is not possible at this point to quantify the costs that would be incurred or the revenue that would be raised.

The Budget Office is unable to provide an estimate of the costs to implement this bill due to its sweeping nature and potential to remake Rhode Island government. The increased expenditures and personnel needed to implement this bill could be substantial.

Budget Office Signature:

Digitally signed by Joseph Codega
Date: 2021.06.29 09:23:13 -04'00'

Fiscal Advisor Signature:

