

Chairman Longmuir and the honorable members of the Political Subs Committee,

My name is Hercules Cummings, and I have served as the Finance Director for the City of Williston, ND, since 2020. I am honored to present my testimony today in support of HCR 3022, concerning the research of stablecoin investment and custody for local governments, and to advocate for its careful exploration. My background in public finance and digital assets informs my perspective on this emerging asset class.

Local governments traditionally invest reserve funds and operating cash in low-risk instruments such as Treasury bills, money market funds, CDs, and high-grade municipal bonds. Stablecoins, digital assets designed to maintain a stable value, typically pegged to a fiat currency like the US dollar and redeemable 1:1 for USD, offer a new option for consideration. It's crucial to distinguish stablecoins—a digital or tokenized representation of the US dollar—from volatile cryptocurrencies like Bitcoin and altcoins. Stablecoins are generally commodity-backed by assets such as CDs, money market funds, and Treasuries. The custody of stablecoins for local governments, along with the potential for investment, represents a new avenue worth exploring. Some stablecoins offer staking or higher yield-generating opportunities, potentially providing modest returns on municipal reserve funds.

Stablecoins offer several potential advantages:

1. **Increased Efficiency and Cost-Effectiveness:** Stablecoins, leveraging blockchain technology, can facilitate faster, cheaper, and more transparent transactions. This reduces reliance on traditional banking systems and lowers transaction costs for businesses and consumers. This can expedite payments for services, taxes, and vendor contracts, which can be slow, costly, and involve multiple intermediaries, leading to delays and increased administrative overhead. Cost efficiencies potentially gained include lower transaction fees compared to wire transfers and to mention 24/7 settlement giving us enhance liquidity and flexible cash management.
2. **Enhanced Financial Inclusion:** Many individuals and small businesses lack access to traditional banking. Stablecoins can provide a secure and accessible means of storing and transferring value, empowering underserved communities and fostering economic development. Future legal allowance of stablecoin utilization could broaden access to capital from non-traditional investors and market participants, potentially lowering the cost of capital for important projects. Furthermore, stablecoins can streamline the efficient and transparent distribution of financial aid and rapid remittance to grantees.
3. **Potential for Financial Stability:** By maintaining a stable value, stablecoins can serve as a reliable store of value and medium of exchange, even during economic volatility. This can help mitigate the impact of financial crises and provide a more stable financial environment for local governments and their constituents. A portfolio diversification that includes stablecoins may serve as a hedge against inflation and protection against the devaluation of other assets.
4. **Borderless Transactions:** During lockdowns and social distancing measures, digital assets such as stablecoins enabled completely contactless transactions without the need to handle physical cash or visit financial institutions.
5. **Leadership in Financial Innovation:** Investing in stablecoins can position local governments and the State of North Dakota as leaders in financial innovation, aligned with the current

administration's aspirations of becoming the global leader in the blockchain industry. Embracing this technology can attract new businesses, foster innovation, enable participation in emerging digital payment networks, encourage stakeholders to build institutional knowledge of blockchain technology, and create a more dynamic and resilient economy. The world is pointing toward digital asset adoption, and this catapults the great state of North Dakota to lead the digital race.

From a transactional standpoint, the Treasurer would create a digital wallet and a secured account on a trusted, reliable, and regulated US-based exchange with robust security measures and Know-Your-Customer verification. Once the exchange account is approved, they would proceed to purchase the stablecoins. While stablecoins are not classified as legal tender or cash, they are generally recognized as financial instruments if the contractual arrangement includes a right to receive cash from the issuer. Alternatively, stablecoins could be classified as cash equivalents due to their high liquidity and stable value, depending on the applicable accounting guidelines and rules. When selling and converting back to fiat, the transactions is almost instantaneous.

Addressing Concerns:

I recognize the concerns about cryptocurrency volatility. However, stablecoins are specifically designed to maintain a stable value, thereby mitigating this risk. It is paramount to partner with reputable, US-based issuing companies that are highly solvent, maintain complete and accurate records, undergo frequent audits, and are federally regulated. Additionally, implementing appropriate safeguards to protect public funds is essential. Robust regulatory frameworks are vital for the responsible use of stablecoins.

Measured Approach and Safeguards:

While stablecoins offer promising benefits, responsible implementation should proceed deliberately with appropriate safeguards. A measured approach focusing on well-regulated assets and specific use cases will allow municipalities to gain experience while effectively managing risks.

Call to Action:

I urge the legislature and committee to:

- Establish a task force that seeks to study potential benefits and risks of stablecoin adoption for local governments.
- Establish Risk Control and Mitigation Plan that details the maximum investment amounts for excess reserves
- Conduct public education and outreach campaigns to inform the public about the benefits, risks, and regulatory framework for stablecoins.
- Explore the feasibility of using stablecoins for specific use cases, such as vendor payments or tax collection.
- Collaborate with experts and develop best practices and guidelines for the safe and responsible use of stablecoins.

By embracing innovation and exploring the potential of stablecoins, local governments can modernize their financial systems, improve efficiency, integrate with traditional financial services, enhance transparency, expand its services to a growing customer base, and ultimately serve their citizens more effectively. I highly urge that you support HCR 3022 to conduct comprehensive research and analysis and see that it is indeed a technological and financial opportunity for North Dakota.

Thank you for your time and consideration and I stand for any questions.

Respectfully.

Hercules Cummings, City of Williston Finance Director.