A CALIFORNIA DIGITAL ASSET INVESTMENT STRATEGY

POLICY REPORT BY

LUIZ TORRES

DEPARTMENT OF PUBLIC POLICY & ADMINISTRATION
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

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EXECUTIVE SUMMARY

This report evaluates the feasibility of integrating digital assets into California's public investment strategy amid persistent structural budget volatility and growing state experimentation with digital asset-based reserve funds. Through qualitative document analysis and application of Kingdon's Multiple Streams Approach, the study examines regulatory developments, institutional adoption trends, and state case studies in New Hampshire, Texas, and Arizona to assess policy transferability. The findings indicate that while digital assets present risks related to market volatility, cybersecurity, and regulatory uncertainty, they also offer potential for portfolio diversification, enhanced fiscal resilience, and modernization of state financial infrastructure. California's existing systems—including the Pooled Money Investment Account and the Digital Financial Assets Law—provide a sophisticated governance foundation capable of supporting responsible adoption under structured oversight. The report concludes that a California Digital Asset Strategic Fund could be viable if supported by qualified custody arrangements, stringent reporting requirements, and clearly defined investment and exit parameters. Additionally, developing internal blockchain capacity would enable long-term operational control and reduce reliance on third-party intermediaries. Remaining challenges include the possibility of federal preemption and political uncertainty surrounding future state leadership. Overall, the analysis finds that California can responsibly integrate digital assets into its public investment framework with careful statutory design, phased implementation, and robust risk-mitigation measures.

INTRODUCTION

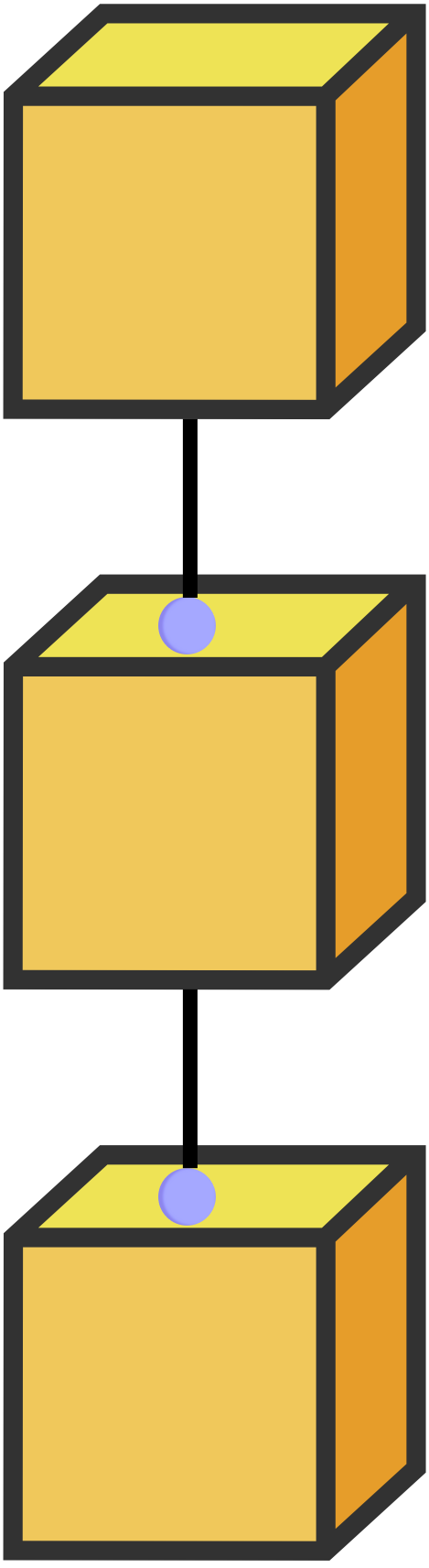
This report will examine how the state of California can update its investment mechanisms by incorporating digital assets into its investment portfolios. Digital assets are created and stored digitally, offering identifiable value and range from data and images; and cryptocurrency is the most prominent investment mechanism available and known to the public (Investopedia, n.d.).

PROBLEM STATEMENT

The State of California, which faces recurring budgetary volatility, has a responsibility to explore modern investment mechanisms that could bolster its financial coffers. By largely relying on unstable sources of revenues such as personal income tax and capital gains, chronic state deficits range from $10 billion to $20 billion through 2028-29 (Legislative Analyst's Office, 2025). Despite efforts to address these budgetary issues such as using reserves, borrowing, and temporary spending, uncertain revenue growth continues to pose problems for decision makers. Without evaluating whether digital assets can responsibly contribute to state investment strategies, the state risks missing opportunities to improve returns on taxpayer funds while maintaining prudent financial stewardship.

RESEARCH QUESTIONS

- How could state responsibly integrate digital assets into its public investment strategies?
- How can the state ensure fiscal stability and stable returns with this new strategy?
- How would the state invest in internal digital asset tools?



WHY IT MATTERS

Digital assets are increasingly being adopted by everyday citizens and private-sector investors as tools for portfolio diversification. As regulatory frameworks develop and institutional stakeholders continue to legitimize digital assets, questions arise regarding the role of public institutions in this financial landscape. New Hampshire, Texas, and Arizona have already set up “Digital Asset Reserve Accounts” to explore the potential for reasonable returns on these investments. These accounts refer to reserves of different cryptocurrencies to provide financial resilience, hedge against currency inflation, and uphold secure economic sovereignty (Kraken, n.d.). California, with the Silicon Valley and various digital asset companies, need to modernize its financial tools to keep up with market evolutions.

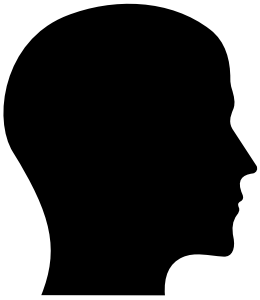
PURPOSE

This report is meant to demystify digital assets proliferation into society, highlighting the policy experiments in New Hampshire, Texas, and Arizona demonstrating a path forward for California’s adoption of these assets. Despite high-profile instances of fraud and volatility, there is a place for the state to take advantage of this financial technology for public benefit. As this industry continues to evolve, policy professionals must look beyond the headlines, and leverage the state’s position as the bedrock for the modern tech movement to evolve its financial tools.

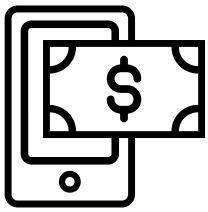
BACKGROUND

This section explores the origins, technological foundations, legal context, and emerging applications of cryptocurrency. Organized thematically, the following serves as a segway into the technology of digital assets, and its uses and implications in the real-world context.

CONCEPT OF DIGITAL CURRENCIES



To understand digital assets—and the rise of cryptocurrency—I have to start with their conceptual founder: the mysterious Satoshi Nakamoto. On October 31, 2008, Nakamoto (2008) published a now-famous white paper outlining a peer-to-peer online payment system that uses cryptography to verify transactions without relying on third-party institutions.



This idea, however, was not entirely novel. Since the 1980s, there have been a handful of attempts at “electronic cash,” but each came with its own set of practical problems (Insert citation 8). Specifically, Nakamoto solved the double-spending problem, which happens when a malicious actor uses a digital asset more than once in authorized transactions (Narayanan et al., 2025). Nakamoto’s paper, now cited thousands of times, laid the foundation for the internet's first cryptocurrency, Bitcoin, resolving many of those earlier challenges. Despite Bitcoin’s success, Nakamoto’s true identity remains unknown, awarding this figure a near-mythical status among cryptocurrency enthusiasts (Izzo, 2023).

The white paper resonated deeply within online communities. It argued that traditional financial institutions hold too much control over digital transactions—making them expensive, slow, and overly dependent on trust. Small payments often were not worth the transaction fees, and institutions could reverse payments at will (Nakamoto, 2008). Bitcoin challenged this model by proving that secure, verified online transactions could occur without banks.

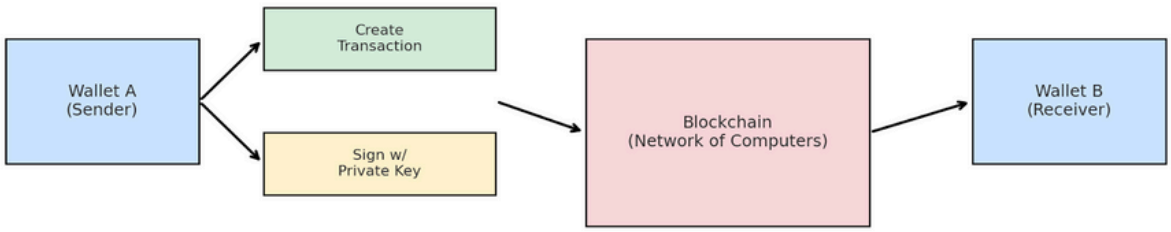
TECHNOLOGY

So—how does it all work?

Digital assets operate on blockchain technology, a digital ledger maintained by a network of computers that collectively validate and store transactions (Khan, 2019). This eliminates the need for a central authority, embodying the concept of decentralized finance (DeFi).

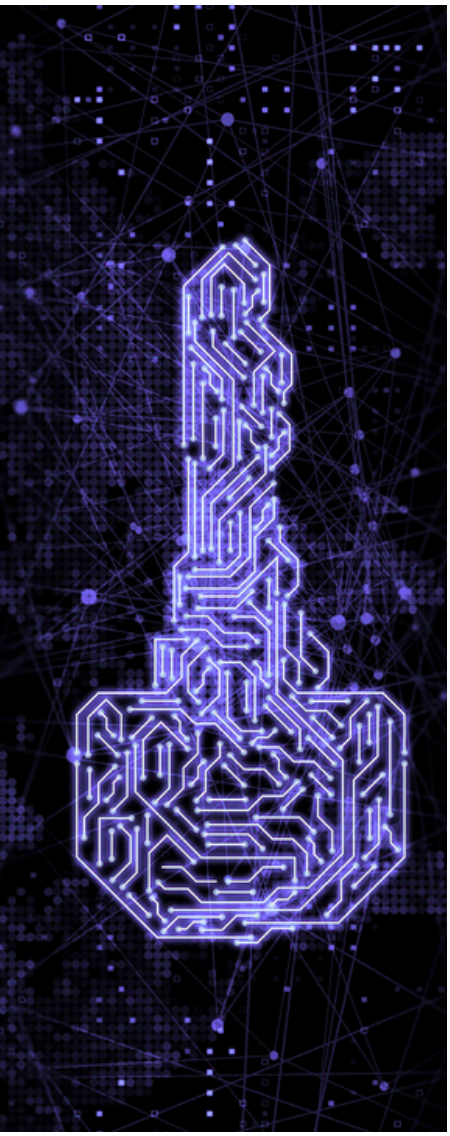
Let's say you wanted to make your first transaction with digital assets by buying some NBA tickets. Just as you would use a physical wallet to hold cash, digital assets are stored in digital wallets, which can be accessed on a smartphone by downloading one of the many apps that provide cryptocurrency services. The difference between this and a traditional bank is that transactions are secured by a private key (essentially a password). As shown in **Figure A**, a sender creates a transaction using their wallet; it's then verified and added to the blockchain, allowing both sender and receiver to trace it publicly.

Figure A - The Blockchain Transaction Process:



A cryptocurrency transaction is created by the sender, signed with a private key, verified by the blockchain network, and then delivered to the receiver.

These transactions are validated by miners in the blockchain network, who earn rewards through transaction fees or newly minted coins. These miners earn a living in this tech space by competing with other miners to confirm transactions and add them to the blockchain, using massive computing power to solve the cryptographic puzzles used for secure transactions.



By removing intermediaries, blockchain systems make microtransactions economically viable on a global scale—something impractical under traditional banking fees (Nakamoto, 2008). Not to mention, with a greater sophistication of data breaching activity by malicious actors, privacy and security in finance are needed more than ever. The financial services industry experiences the highest number of data breaches among all sectors, with major banking institutions consistently topping the list (Patel et al., 2024). Digital assets, on the other hand, provide the opportunity to be pseudonymous (using a name that isn't one's legal name), shifting the responsibility of safeguarding sensitive data from a central bank to individual people (Benarfa, 2016).

Although breaches are impossible to stop, this alternative provides consumers with the ability to take charge of their information, rather than to rely on banks to always mitigate the impact of breaches.

This system captures Nakamoto's vision: a transparent, self-sustaining, and user-empowered alternative to traditional finance.

WHY USE DIGITAL ASSETS?

It is no coincidence that Nakamoto's white paper appeared in late 2008—right in the middle of the Great Recession. While there's no evidence that the paper directly responded to the crisis, its timing gave it symbolic weight. For many, cryptocurrency represented a way to reimagine financial trust outside of institutions that had just failed millions of people (Chen et al., 2021).

The collapse of major banks exposed deep flaws in a system where financial power was concentrated and poorly regulated. In the aftermath, online communities and disgruntled consumers called for financial systems to be less dependent on the U.S. dollar (USD) as the global standard (Mhlanga, 2021).

Interestingly, this conversation about the flaws of the modern financial system goes much further back—to gold.

After adopting the gold standard in 1873, the United States tied the dollar's worth to gold reserves, reinforcing the country's influence through the 1944 Bretton Woods Conference, which established the USD as the global currency (Chen et al., 2021). But volatility in gold prices and limited supply created recurring financial instability. By 1971, President Nixon ended the gold standard entirely, untethering the dollar from gold (Chen et al., 2021).

Without that link, the U.S. dollar became a fiat currency—meaning its value comes not from physical backing, but from public trust and government decree (Investopedia, n.d.). It's valuable because we agree it is. This erosion of public trust came to light during the Great Recession, which made consumers look for other alternatives.

And that's where digital assets enter the picture. They challenge the assumption that government-issued money should be the only kind of money that matters. Despite having no intrinsic value (much like USD), digital assets continue to show that they can be used as currency through consumer investment and trust. Further, like gold, Bitcoin has a scarce amount of coins, fixed at 21 million, which prevents artificial currency inflation by overprinting of money, but also exercises the technical flexibility of high trade volumes that gold can not handle (Chen et al., 2021). **Table A** illustrates the historical concerns and the solutions that digital assets can provide in the modern financial system.

Table A - Historical Concerns and Digital Asset Solution:

Concern	Digital Asset Solution
The centralized influence of banks fosters the belief that they are "too big to fail," as seen in the 2008 Great Recession bank bailouts.	Digital assets decentralize finance, removing the influence of large banks and distributing authority across thousands of computer networks.
The USD's dominance in global markets is weakening, with financial sector mismanagement affecting the world economy.	Digital assets are borderless and not tied to any single government, allowing transactions without the need to be pegged to a national currency.
Central banks can inflate fiat currencies by printing more money, devaluing their worth, and diminishing consumer power.	Bitcoin, for example, has a fixed supply of 21 million coins, preventing artificial inflation and mimicking precious metals such as gold.
Fiat currencies are not backed and rely on a government decree of legitimacy. Banks have high transaction costs, and smaller payments are economically impractical.	"Electronic cash" is built on public trust and solidifies a transparent process in financial systems. By removing intermediaries, payments of any volume can be processed instantaneously at minimal costs.
Centralized payment systems store and collect data that is vulnerable to breaches and surveillance.	Digital Assets allow for user-controlled data, since pseudonymous transactions allow for consumer privacy.

While digital assets offer compelling responses to these concerns, they also introduce new challenges—such as market volatility, environmental costs of mining, and regulatory uncertainty. Nevertheless, their growing popularity demonstrates a shift in how individuals conceptualize money, trust, and control in an increasingly digital economy.

For these reasons, crypto advocates see digital assets as a potential evolution of money itself—one that could reform global finance and offer individuals greater autonomy in a digital age (Mhlanga, 2021).

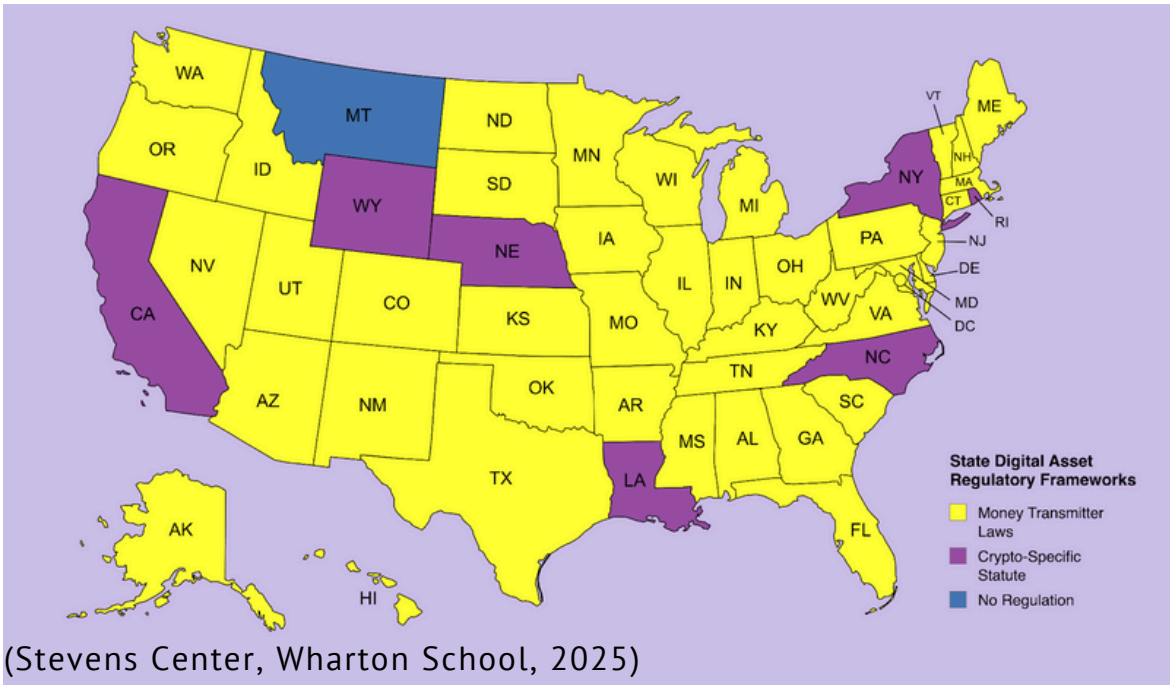
REGULATORY LANDSCAPES

Despite the libertarian principles underlying digital assets, the growing desire to legitimize the financial system means that government action is necessary. In lieu of a lack of federal oversight, states have stepped up to provide oversight of the industry; however, there are varying levels of regulations.

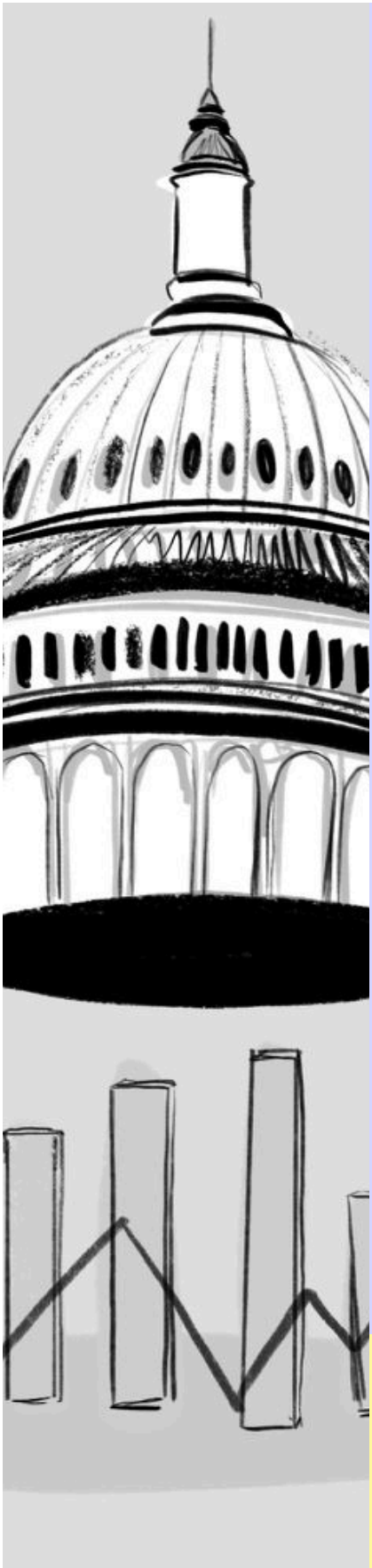
States

Figure B demonstrates the regulatory frameworks by state, designating them by either Money-Transmitter Laws (MTL), crypto-specific statute, and no regulation :

Figure B - U.S. State Regulatory Responses to Digital Assets:



(Stevens Center, Wharton School, 2025)



Money transmitter Laws

MTLs regulate non-bank financial institutions involved in money transmission, exchange, or conversion. Popular examples include Venmo and Cash App, which provide mobile payment services, and MoneyGram, which offers cross-border remittance. Money Service Businesses (MSB) regulated by MTLs must register with federal regulators, and follow additional requirements set out in state laws, or face felony charges, as well as state criminal and civil charges depending on the state (Lo, 2020).

In the context of digital assets, they need to register because they offer money transmitter services. State regulatory entities provide money transmitter business licenses in a patchwork style across the country. Most states interpret their MTLs to encompass cryptocurrencies, which use existing resources and regulatory frameworks (Wolters Kluwer, n.d.). This lowers the costs of oversight of the industry, simplifying their integration into financial services.

Unfortunately, MTLs do not provide a comprehensive overview of the need for oversight of this industry. They do not account for the risks associated with cryptocurrency, are antiquated, and are a motivation for a uniform regulatory regime at the federal level (Vartanian, 2018). The MTLs are not designed with crypto in mind, and the incremental changes by states to alter the law to accommodate the industry further exacerbate the difficulty with complying with this patchwork of laws (Allen, 2020). The states that use MTLs to regulate cryptocurrency activity tend to want to provide a response to the emerging industry, but are not the financial centers or innovation hubs that have elected to further regulate.

Crypto Specific Statutes

Only a handful of states have enacted crypto-specific licensing regimes, with New York, California, and Wyoming standing out as leaders —each representing distinct regulatory philosophies.

New York

The state of New York has operated its BitLicense since 2015, regulating “Virtual Currency Business Activity,” which includes various activities involving businesses and residents (Mahoney, 2023). Further, it uses the term “virtual currency,” meaning a type of digital unit that is used as a medium of exchange or a form of digitally stored value, and includes digital units of exchange that are built on the blockchain technology.

The following activities are regulated through New York state law (23 NYCRR § 200.2(q)):

1. Receiving digital assets for transmission or transmitting
2. Storing, holding, or maintaining custody or control of digital assets on behalf of others
3. Buying and selling digital assets
4. Performing exchange services
5. Controlling, administering, or issuing a digital asset

The barrier to entry is significant at $5000 for the application fee; however, the cost for compliance can well go into the six figures (Brico, 2024). Further, critiques of New York's stringent laws point to an exodus of digital assets companies, an unfriendly environment for startups, and a general affront to the fundamental concepts of privacy and freedom from intrusive government that crypto was built on (Fordham Journal of Corporate & Financial Law, 2018). These factors have collectively become the reason why New York's regulatory framework has become known as the most stringent, and represents an extreme in the context of state regulations (CoinDesk, 2025).

By requiring licensees to meet capital requirements, maintain books and records, file financial reports, and subject themselves to examination, as well as have a compliance officer on staff, these entities are treated with regulations found in the banking industry (Baker, 2019). The state’s position as a financial hub and a regulatory-heavy legal structure cultivated this strategy of financial transparency to govern this emerging industry.

California

California structured its Digital Financial Asset Law (DFAL) after years of different approaches to regulating the industry. Initially, the prototype regulatory framework was very stringent and largely based on the BitLicense; however, it stalled in the legislature because it was seen as premature and its regulations were out of touch with the unique aspects of the crypto industry (Kim, 2022). Ultimately, when DFAL was signed by Governor Newsom in 2023, it took the approach of defining a broader term of "digital financial assets" that includes a digital representation of value that is used as a medium of exchange, unit of account, or store of value, and that is not legal tender (notes that a government has declared must be accepted as payment for debts like USD) (Investopedia, n.d.).

The following activities are regulated through California state law (CA Fin Code § 3102):

1. Exchanging, transferring, or storing a digital financial asset or engaging in digital financial asset administration.
2. Holding electronic precious metals or electronic certificates representing interests in precious metals.
3. Exchanging one or more digital representations of value used within one or more online games, game platforms, or family of games.

The licensee requirement will not go into effect until July 1st, 2026; therefore, certain regulatory determinations are still in progress. For example, the licensing fee is estimated to be $20,000 (California Legislature, 2025). However, the increased scope means that a greater level of technological expertise is needed to effectively implement the provisions of DFAL, which has more comprehensive regulations (Orrick, 2024). This includes a thorough financial examination process with on-demand financial statements, ledgers, cybersecurity audits, and client asset reports at the discretion of the DFAL regulator.

Wyoming

The Cowboy State took a very distinct approach to regulating the industry. The Special Purpose Depository Institutions Act (SPDI Act) created a state banking charter tailored for digital-asset businesses, meaning they would be able to custody these assets and accept deposits (Wyoming Division of Banking, n.d.).

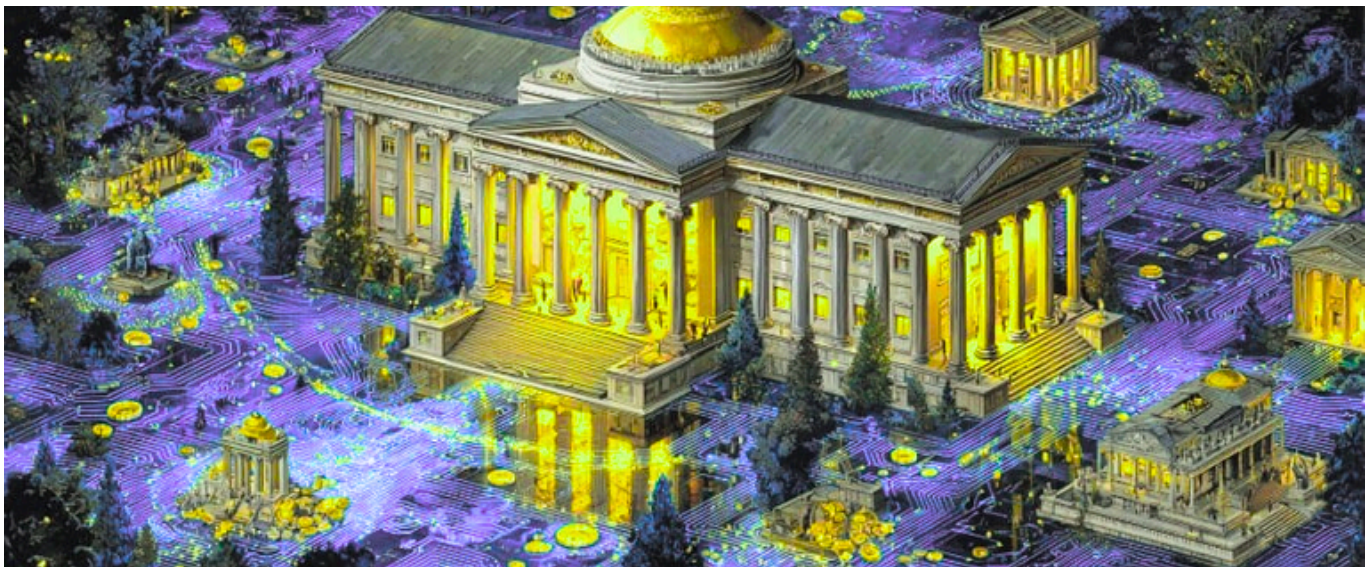
The following activities are regulated through Wyoming state law (Wyo. Stat. § 13-12-101):

1. Custody, safekeeping, and asset servicing
2. Broker-dealer activities
3. Commodities intermediary activities
4. Exercising fiduciary powers similar to those of banks
5. Loan or temporary credit lines

The barriers for this regulatory framework are minimal since entities seeking this status need to apply for the charter and remain under state banking supervision with an application fee of $15,000 (Wyoming Division of Banking, n.d.). This means that instead of a licensure or money-transmitter law tweak, this charter-based approach allows crypto firms to have a regulated vehicle that helps address the challenges they faced obtaining banking services under federal frameworks.

Federal

During the Biden administration, their approach was to regulate and debank the industry (The White House, n.d.). The second Trump administration's approach to cryptocurrency is nothing short of total buy-in into the technology. That led to a $160 million charge by digital asset companies to get lawmakers into office who are sympathetic to their cause (Cancryn, 2025). What has resulted is monumental legislation necessary for the legitimization and parity in the digital asset industry: The GENIUS Act.



Signed July 18, 2025, the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act received bipartisan support in both legislative chambers in Congress. Stablecoin, a cryptocurrency tied to the value of fiat currencies, commodities, or other financial instruments, serves as an alternative to the volatile nature of investment-type cryptocurrencies, meeting daily transaction needs (Krause, 2024). GENIUS aims to clarify the regulatory authorities by allowing for federal oversight for large stablecoin issuers while permitting smaller issuers to operate under state regulations paired with monthly audit report requirements proving that they have sufficient reserves to support their stablecoin (Krause, 2024). This step toward a structural framework for stablecoin issuers is the tip of the iceberg for digital asset regulation in Washington, D.C. Key developments in this policy space include state preemption, which eases the regulatory burdens on digital asset companies while giving states less autonomy over their preferred level of consumer protections.

Preemption Discussion

The differences in state laws when it comes to regulating the digital asset industry are not only a burden to proponents, but are an important conversation in streamlining requirements. As seen in this paper, the pendulum between the strict New York laws and the progressive Wyoming laws creates inequities in consumer protections and emerging companies.

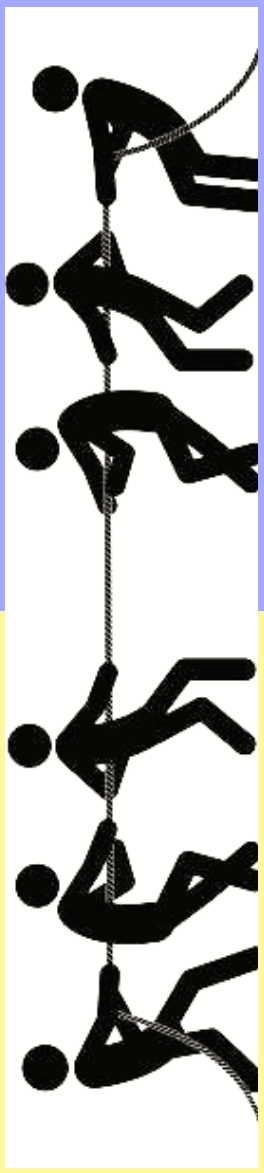
On the federal front, the U.S. Department of Justice and the National Economic Council partnered to identify state-level practices that can "drive up nationwide costs and undermine American safety" by opening up a public comment period (U.S. Department of Justice, 2024). In response, one of the influential digital asset companies in the U.S., Coinbase, submitted a letter detailing the need for federal preemption of state laws from licensing requirements to security laws (VitalLaw, 2025). The laws that Coinbase is referring to include the CLARITY Act and the Responsible Innovation Act, which are pending in Congress. These bills seek to exempt federally regulated digital assets from blue-sky laws (state regulation of securities) and require exchanges (online platforms that allow users to buy, sell, and trade crypto) to be regulated by the Commodity Futures Trading Commission (Goodwin Law, 2025).

Commodity Futures Trading Commission vs. Securities and Exchange Commission

A key discussion in Washington, D.C. is whether digital assets at the federal level should be regulated by the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission (SEC). A realm of digital assets includes speculative investments, often volatile in nature, and under the purview of these agencies; however, depending on how the coins are intended to be used these regulatory bodies have exerted authority.

The SEC's argument for regulating crypto, which is increasingly under threat, is that it takes the form of an investment contract. This means that it is an agreement, "between two parties where one party invests money with the intent of receiving a return" (ContractsCounsel, n.d.). Categorizing an asset as an investment includes the Howey test, which requires these criteria to then be subject to SEC regulations:

- be an investment of money
- a common enterprise (profits determined by a third party's efforts)
- have an expectation of profits
- profits derived from the efforts of others



Court cases on this matter, such as Balestra v. ATBCOIN LLC (determined that the Howey test was met by coin issuer) and SEC v. Ripple Labs (settled on the matter, but defendant will be spared from future violations), offer conflicting determinations (Moffett, 2019). Clearly, there are grounds for litigation over unregistered coins on the market; however, the Ripple Labs case, which settled in May 2025 but began during Biden's tenure in 2022, is a marker for how the Trump Administration wants crypto regulation to progress (U.S. Securities and Exchange Commission, 2025). The SEC is largely seen as an enforcement-heavy regulatory body, and aggressively pursued litigation during the Biden Administration. Not only did this motivate the industry to pursue more crypto-friendly elected officials, but a greater call for regulations under the CFTC ensued.

The CFTC, which is the preferred regulatory body under the Responsible Innovation Act, argues that crypto is closer to a commodity. This refers to "goods sold in the market with a quality and value uniform across the world" (Moffett, 2019). Traditionally, commodities take form in raw materials crucial for manufacturing goods, such as metal and oil, to more key ingredients like corn or livestock. In the lens of digital assets, court cases such as CFTC v. McDonnell have determined that these "goods" (crypto) are exchanged for uniform quality and value across the world (Moffett, 2019). This ruling claims that user behavior of assets like Bitcoin tracks with traditional materials like gold, thus making it a commodity.

Despite reasonable arguments regarding digital assets being investment contracts and commodities, or a combination of the two, the designated regulatory parties are on track to be solidified by politics. As the Clarity Act and the Responsible Innovation Act continue to be worked on in Congress, it seems like the appropriate regulators may soon be solidified, ending an era of tug and pulling by the CFTC and SEC.

Digital Asset Emergence in Institutional Portfolios

The resilience of the digital asset industry, paired with regulations, has galvanized traditional institutions to look at ways to leverage the technology. Although limited to pilot programs and limited investments, bankers are getting used to the idea that bitcoin is going to stick around (Reuters, 2025). Three of the largest and most prominent banks, Wells Fargo, JPMorgan Chase, and Citibank, have integrated digital asset components into their systems (Chen, 2023):

- Wells Fargo: focuses on integrating cryptocurrency into exchange-traded funds (which hold a diversified basket of assets) for clients who are not familiar with the market.
- JPMorgan Chase: offers a Bitcoin fund, which allows sophisticated investors the ability to diversify portfolios and looks to implement blockchain technology into its systems.
- Citibank: takes the conservative approach of providing custody and trading services, while exploring stablecoin options for its clients.

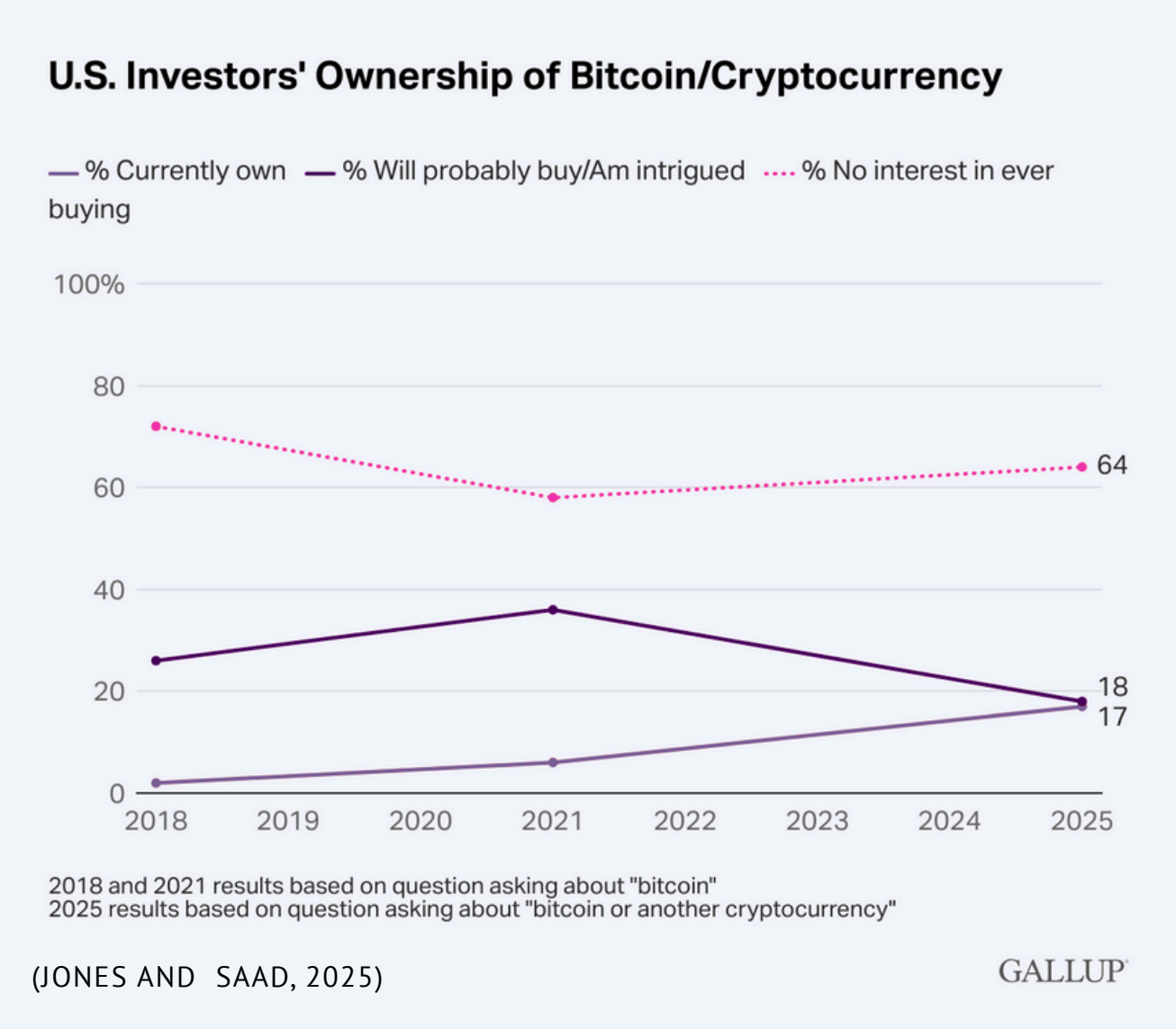
The relationship between the digital asset industry and traditional banks, however, has not been smooth. Provisions within the GENIUS act have been subject to debate in regulatory making spaces, where banks want a broad interpretation of the law, while the digital asset industry wants narrow rulemakings (Harper, 2025). This battle is at the cornerstone of two institutions providing financial services in traditional versus innovative ways. While traditional institutions claim dangers to bank lending capacities, digital asset companies accuse them of resisting new entrants to the market, denying consumer protection over protectionism (not allowing emerging competitors enter a market to protect current standards) (Hasper, 2025). As regulations develop, more fights are expected to sprout as these financial businesses spar with each other, which would fundamentally affect how they survive in the modern era.

Real-World Trends and Cybersecurity

Digital assets would not be an emerging financial tool, drawing the eyes of financiers and governments alike, if it were not for their widespread use.

Today, a 2025 Gallup poll shows that as many as 28% of Americans — approximately 65 million people —own cryptocurrencies, particularly among Millennials and Gen Xers (Jones and Saad, 2025). California leads with 8.2 million holders (Coinbase, 2025). As seen in Figure C, the poll demonstrates a look at sentiments around cryptocurrency and the trend towards ownership.

Figure C - U.S. Investors' Ownership of Bitcoin/Cryptocurrency:



(JONES AND SAAD, 2025)

Further, there are clear favorites cryptocurrencies in the digital asset sphere that have consistent investors. **Table B** from Security.org data demonstrates the most popular cryptocurrencies from a sample of respondents:

Table B - Security.org Most Popular Crytocurrency Data:

Crypto Owenership Rates	2022	2023	2024	2025
Bitcoin (BTC)	77%	78%	76%	74%
Ethereum (ETH)	65%	58%	54%	49%
Dogecoin (DOGE)	N/A	N/A	26%	31%
Solana (SOL)	11%	10%	11%	18%
U.S. Dollar Coin (USDC) [Stablecoin]	12%	10%	12%	17%

(CRUZ & PETRINO, 2025)

Cybersecurity Threats and Scams

Despite some promising figures regarding the use of cryptocurrency, this has also translated to an increasing threat to vulnerable users. The sophisticated methods of these schemes range from scams in exchanges, phishing, social engineering, counterfeit websites, and fraudsters' ads (Ecohumanism Journal, 2025). The lack of governing entities and the technological complexity in blockchain technology mean that consumers are more vulnerable, and California specifically shows that: $1.15 billion in consumer losses (Federal Bureau of Investigation, 2024).

In response to these threats, California's Department of Financial Protection and Innovation (DFPI) created the Crypto Scam Tracker, which helps law enforcement in uncovering the complicated tactics that these scammers employ (University of San Diego School of Law, 2025). Overall, however, this tracks with the trend of increased scam losses, with traditional bank transfers and payments still outpacing cryptocurrency (Federal Trade Commission, 2025). This is indicative of a new era of scams that have overwhelmed consumer protection measures, no matter the medium of exchange.

Additionally, digital asset companies are seen as targets by malicious actors, with an estimated loss of $9 billion by business (World Economic Forum, 2023). Cybersecurity is not a unique problem for the industry, but an intricate threat to all modern commerce. The specific components of blockchain, such as adding a block to the system, can be subject to manipulation if consensus protocols (agreements that a transaction is valid) are not in place (World Economic Forum, 2023). Further, the private key components can be compromised, and poorly written smart contracts (automatically executed agreements with predefined actions when specific conditions are met) can be attacked as well (Capitol Technology University, 2020). Strict safeguards are needed to protect the integrity of these companies and the technology that holds versatile features for the benefit of consumers and businesses alike.

Conclusion

Digital assets have evolved from an experimental financial tool into a disruptive force reshaping concepts of money. While regulatory uncertainty and cybersecurity risks persist, ongoing integration by governments, banks, and consumers indicates that digital assets are likely to remain a fixture in the global financial markets.

METHODOLOGY

QUALITATIVE ANALYSIS

This report will use qualitative analysis to examine how cryptocurrency regulation has allowed for state-level government policies to leverage the benefits of this financial technology. The analysis draws from primary government sources, including legislative texts, regulatory guidance, and agency reports, alongside white papers and policy analyses that interpret these materials.

Primary sources include:

- Federal and state legislation
- Regulatory reports and guidance
- Legislative analyses
- Public comment letters
- Industry white papers

These documents will be analyzed to identify policy themes, regulatory frameworks, and budgetary innovation methods by governments.

CASE STUDY APPROACH

This will further go into the case studies examined regarding cryptocurrency as an investment mechanism, its potential for growth into the traditional financial system, and insights into the appropriate safeguards. Each case will be selected to represent a perspective in public investment that shapes how California may structure a Digital Asset Reserve Account. This would include potential impact on investment returns, market stability, and consumer protection.

The primary case studies include:

- Local models
- Statewide models
- Federal efforts
- International systems

ANALYZING FRAMEWORK

The state case laws will be assessed using John Kingdon's (2011) Multiple Streams Approach (MSA) to understand how existing and prospective efforts have reached enactment. This public policy theory uses three streams that display the convergence of distinct and interrelated concepts:

Problem Stream: This analysis identifies the policy issues that drive attention to an issue.

Policy Stream: This captures the menu of available policy options that "solve" the issue.

Politics Stream: This examines the broader political climate that affects policy success or failure.

By applying MSA, the report will map how these streams converge to open policy windows, which are opportunities to influence decisions in the legislative process. This will allow a comprehensive view of why entities began to pursue these policies, and if California's streams are ready for their own brand of innovative investment strategies. Using MSA for policy recommendation's helps determine the how legislation is crafted to meet the circumstances of the problem.

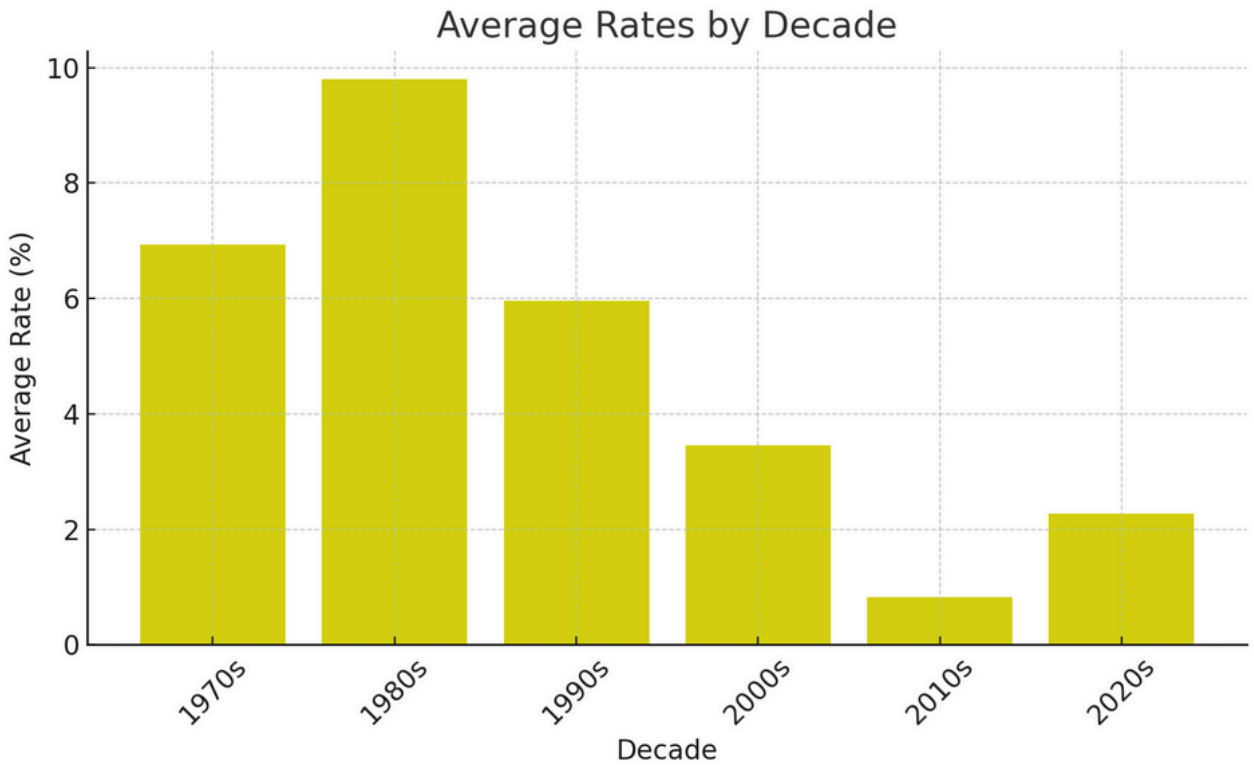
PUBLIC INVESTMENT IN CALIFORNIA

The following gives an overview of California's current investment mechanism.

The California State Treasurer is an elected statewide office, and serves as the State's lead asset manager, banker, and financier (California State Treasurer, n.d.). Elected every four years, the Treasurer's Office helps governments manage their fiscal affairs and has the state's most prominent investment account: The Pooled Money Investment Account (PMIA). This allows the State to manage its cash flow and strengthen financial security, using general funds, special funds held by agencies, and monies deposited by cities, counties, and other entities (California State Treasurer, n.d.).

The board for PMIA consists of two elected officers, the Treasurer and the State Controller, and a bureaucrat for the Department of Finance (DOF) appointed by the governor (California State Treasurer, n.d.). Further, the Pooled Money Investment Board (PMIB) meets every month, going over the amount in the portfolio, its yield (increase or decrease in investment amount), and its average life (amount of time it takes for investments to be paid back) (California State Treasurer, n.d.). Since 1971, the State has averaged a 5.01% annual yield in investment and currently boasts an ending portfolio of $161.7 billion as of September 2025; however, Figure D features a decade breakdown demonstrates the gap in yields since the 1980s that have steadily decreased (California State Treasurer, n.d.).

Figure D - PMIA Decade Yield Data:



(California State Treasurer, n.d.)

Lastly, the PMIA is guided by principles and an investment policy focused on portfolio safety and diversification, liquidity, and rate of return (California State Treasurer, n.d.). This includes a commitment to investing in high credit quality securities and maintaining reasonable protection so that no single investment will have a disproportionate impact on the portfolio. Additionally, this policy includes 11 investment types, outlined in statute, and authorizes the Treasurer to work with a broker-dealer. (California State Treasurer. n.d.). The sophisticated laws around California's investment mechanism demonstrates a balance between maximizing returns through a diversity of investment types, and ensuring security of taxpayer funds.

DIGITAL ASSETS IN PUBLIC ACCOUNTS

This section will dive into how federal, state, and international public entities have established digital asset reserve funds. These sections will provide a roadmap for a California Digital Asset Reserve Account.

Public entities in the U.S. have used different methods to build up reserve accounts. Although a handful of countries have engaged in different strategies, in this section, we will use China and the United Kingdom, some of the largest economies and owners of digital assets, in this analysis (Webopedia, n.d.).

Generally, we can put the methods of acquiring digital assets in four categories: seized, donations, investment of public funds, and unclaimed property.

SEIZED

Seized digital assets hold a law enforcement component as assets are confiscated from fraud, anti-money laundering, ransomware, or organized crime operations (United States Secret Service, n.d.). Further, these reserves are forwarded to government-controlled state digital wallets, essentially becoming state property. By holding these digital assets, these entities are not necessarily focused on investment, but treat them as commodities such as gold. The Trump Administration issued an Executive Order on March 6, 2025, establishing a “Strategic Reserve Account”, in which all federal agencies must transfer held digital assets to the account, and the Department of the Treasury must hold the assets (The White House, 2025). Other countries with huge digital asset stockpiles, such as Germany, have decided to liquidate in compliance with their laws, which ultimately resulted in a $3.6B loss once Bitcoin surged past $125,000 in value (Yahoo Finance, 2024). This practical method of acquiring digital assets is available to national governments that are capable of regulating the industry; however, considerations of custody of the assets or liquidation are a policy decision that is becoming more important across the world.

DONATED

Despite being the least common option for acquiring these assets, research did reveal that Roswell, New Mexico, with a population of 55,000 and an extraterrestrial fascination, received a donation of $3,000 worth of Bitcoin (Roswell Daily Record, 2024). This led to the first case in the country in which a city established a digital reserve account that depends on donations. The Roswell Strategic Bitcoin and Emergency Fund will be able to cover 100% of water bills for its senior citizens after 10 years, and if it reaches $1 million in value, it will serve as disaster relief for the city. Although this is not a feasible mechanism for a state government to rely on to build up a reserve account, it does demonstrate the creative mechanisms that municipalities can use to leverage digital assets for the benefit of thier residents.

INVESTMENTS OF PUBLIC FUNDS

Largely following in the steps of the federal government, Texas and New Hampshire established their reserve accounts, becoming the first states to leverage the benefits of investment in digital assets (CryptoNews, 2025). The mechanisms they use vary in their flexibility and interpretations of the future of the industry.

New Hampshire's Strategic Reserve grants flexibility to its treasurer (who is selected by the legislative chambers) by authorizing up to 5% of public funds to be invested in digital assets that have a market cap above $500 billion, which includes only Bitcoin (CryptoNews, 2025).

In contrast, Texas put its "Strategic Bitcoin Reserve" under its elected comptroller position, who gets appropriations from the legislature, dedicated revenue sources, private donations, and other cryptocurrency received through purchases (Texas Policy Research, 2025).

The most unique and distinguishable aspect of this model is the Texas Strategic Bitcoin Reserve Advisory Committee, which consists of the comptroller, an official from an existing investment board, and three cryptocurrency experts; they provide guidance in asset management and risk mitigation. Lastly, Texas implements the same market cap of $500 billion to ensure only high-quality assets can be leveraged, which again only includes Bitcoin, along with a biennial report to the Legislature on the status of the account.

Both models demonstrate a mediated approach that focuses on risk mitigation, although the Texas model is more comprehensive and relies on multiple stakeholders for oversight. New Hampshire allows their treasurer to have considerable discretion in managing their account, with no oversight mechanisms built in other than approval from their legislature on the treasury position.

UNCLAIMED PROPERTY

Arizona was considering an investment mechanism model for a reserve account, but Governor Katie Hobbs vetoed the bill, settling for a bitcoin and digital assets reserve fund, which uses unclaimed property to acquire these assets (Arizona Legislature, 2025). The unclaimed property process exists in all states and is meant to safeguard consumer assets when they are presumed abandoned, and the owner is unable to be contacted (National Association of Unclaimed Property Administrators, n.d.). Through Arizona's process, after three years of digital asset dormancy (no one claims their property), the assets are transferred to the reserve fund, which can, upon appropriation of the legislature to the tune of 10% of the fund, be transferred to the state's general fund. This unique model allows the state to leverage a growing stockpile of unclaimed property because of the increased use of digital assets, and keeps assets in their native form, meaning that no conversion to other cryptocurrencies is mandated until the legislature liquidates the funds. Arizona does not limit its reserve account to Bitcoin assets, but also does not risk public funds, which gives it the flexibility to augment state funds, although it is limited in making strategic investments because of asset claimants and the lack of control over the quality of assets.

The **Table C** will serve as a breakdown of the different methods of acquiring digital assets, the government entity in position, acquisition process, and amount of digital assets in reserves.

Table C - Government Interaction With Digital Assets:

Acquiring DA's	Entity	Acquisition Process	Amount in Reserves
Seized	**United States**	Digital assets are seized during criminal investigations. After court-ordered forfeiture, crypto is transferred into government-controlled wallets. The Strategic Reserve Account serves to consolidate all agency holdings of digital assets.	207,189–215,000 BTC; $17,792,792,531-$18,463,578,637 USD
Seized	**China**	Maintains major BTC holdings from anti-fraud and anti–money laundering crackdowns. Courts confiscate assets from criminal defendants. Crypto is transferred to secure state custody.	190,000–194,775 BTC; $16,316,650,888-$16,726,714,088 USD
Seized	**United Kingdom**	Holds crypto seized from fraud, ransomware, and organized crime operations. Law enforcement secures private keys or compels transfers into government wallets.	61,000 BTC; $5,238,503,706 USD
Donations	**Roswell, New Mexico**	Operates a municipal Bitcoin reserve funded entirely by voluntary contributions. Individuals donate BTC directly into the city's designated Bitcoin wallet.	0.03 BTC; $2,906 USD
Investment of Public Funds	**Texas**	The state uses public treasury funds to acquire and hold Bitcoin in cold storage as part of a strategic reserve. Comptroller purchases Bitcoin on regulated markets using state funds and transfers assets into state-controlled wallets.	Unknown digital asset investments; $10,000,000 in digital assets invested by the legislature
Investment of Public Funds	**New Hampshire**	Authorized to invest a portion of state funds in high-market-cap digital assets (effectively Bitcoin). The treasurer directs state accounts to buy Bitcoin via regulated exchanges/institutional brokers, then moves assets into official custody mechanisms.	Unknown digital asset investments; Up to 5% of public funds
Unclaimed Property	**Arizona**	Holds unclaimed cryptocurrency in its native form instead of converting to cash. Crypto held by exchanges when an owner cannot be located is transferred to the State Treasurer as unclaimed property.	Unknown digital asset in possession; The state treasurer shall deposit ten percent of held digital assets into the general fund.

State Model Multiple Stream Analysis

The three states that have established reserve accounts took considerable steps to lead the country in digital asset innovation. The steps taken to enact these policies will be analyzed using MSA, and takeaways will be highlighted to inform a California-based approach. Arizona's decision to reject an investment model and accept an unclaimed property model will be explored to get a clear analysis of the political dynamics. **Table D** will analyze New Hamphire's Strategiv Reserve, **Table E** will analyze the Texas Strategic Bitcoin Reserve, and **Table F** will analyze Arizona's Bitcoin and Digital Assets Reserve Fund & Strategic Bitcoin Reserve in that order.

Table D - New Hampshire Strategic Reserve MSA:

New Hampshire Strategic Reserve	Problem: • Inflation is rampant, affecting every aspect of daily life (New Hampshire General Court, 2025) • The state treasurer is only allowed to invest in very safe assets (New Hampshire Treasury, n.d.) • Digital assets have a reputation for being volatile (Investopedia, n.d.) • State agencies do not have the infrastructure to manage digital assets (Chainlink Labs, 2025)
	Policy: • The state treasurer should be allowed to invest in digital assets with some limitations (New Hampshire General Court, 2025) • The state should only be allowed to invest in world-class assets of at least $500 billion to ensure quality (not for meme coins, which are volatile and humorous), and hold that value for a year (Coinbase, n.d.) • 5%-10% of public funds should be invested (Ultimately, 5% was chosen) (Digital Watch Observatory, 2025) • A qualified custodian is needed to fill in the structural gaps that the state does not possess (Chainlink Labs, 2025)
	Politics: • The federal government has a Strategic Reserve Account, so states should follow that example (New Hampshire Bulletin, 2025) • Republican Gov. Ayotte noted the state's precarious budget situation (New Hampshire Bulletin, 2025) • Gov. Ayotee welcomes the crypto industry and welcomes federal oversight New Hampshire Bulletin, 2025) • Both chambers are Republican controlled • H.B. 302 sailed through the legislature with Republican support (New Hampshire General Court, 2025)

Stream Conversion: H.B. 302 was signed on May 6, 2025, citing the need for countering inflationary pressures in the New Hampshire state budget (New Hampshire General Court, 2025). Despite fears of digital asset volatility, lawmakers settled on high-quality assets, a percentage limit on investments, and permissive language for the state treasurer to invest through a qualified custodian (entities that provide digital assets protection, secure storage, and crypto management services) (Investopedia, n.d.). Republican Governor Ayotee is pro-crypto and welcomed legislation to expand investment innovation in the state, becoming the first state to set up a reserve account.

Table E - Texas Strategic Bitcoin Reserve MSA:

Texas Strategic Bitcoin Reserve	Problem: • Bitcoin (referred to as "digital gold) is an emerging asset, yet the state has not authorized investments (Texas Legislature Online, 2025) • If the state does not diversify its investment approach, it won't be able to participate competitively in this market (Texas Legislature Online, 2025) • Economic volatility and inflation can threaten the state's financial stability (Texas Legislature Online, 2025)
	Policy: • The state comptroller should be authorized to manage the reserve as a special fund outside the treasury (Texas Legislature Online, 2025) • The state should only be allowed to invest in world-class assets of at least $500 billion to ensure quality, and hold that value for 24 months (Texas Legislature Online, 2025) • The legislature should transfer money to the reserve at its discretion (Texas Legislature Online, 2025) • A third party is needed to fill in the structural gaps that the state does not possess (Chainlink Labs, 2025) • Establishing a five-member advisory committee will allow for prudent investment policies (Texas Legislature Online, 2025) • A biennial report will allow the public and the legislature to keep track of investments (Texas Legislature Online, 2025)
	Politics • The federal government has a Strategic Reserve Account, so states should follow that example (Axios, 2025) • The state is a massive crypto mining industry (Axios, 2025) • Republican Gov. Greg Abbott wants to become the "crypto capital" (Axios, 2025) • Republican Lt. Gov. Dan Patrick was a proud sponsor of the legislation (Office of the Lieutenant Governor of Texas, 2025) • The bill passed with both democratic and republican votes (Texas Legislature Online, 2025)

Stream Conversion: S.B. 21 was signed on June 20, 2025, with huge motivations of leveraging this asset against economic volatility and inflation, as well as establishing itself as a leader in the industry. Digital asset volatility, intervention in private markets, and risk to taxpayers' fund were some of the concerns raised; however, lawmakers settled on high-quality assets (24 months instead of New Hampshire's 12 months), establishing the advisory committee, leaving investment funds up to the legislature, and third-party contracting of custodial services (Texas Policy Research, 2025). Republican Governor Abbott emphasized the state's crypto mining industry and is eager to continue to be a leader in the space.

Table F - Arizona Bitcoin and Digital Assets Reserve Fund & Strategic Bitcoin Reserve MSA:

Arizona Bitcoin and Digital Assets Reserve Fund & Strategic Bitcoin Reserve	Problem: • The state's blockchain footprint must be expanded to protect consumers (KJZZ, 2025) • The state is being left behind with the new generational preferences in the digital market (Bitget News, 2025) • The unclaimed property process requires liquidation of assets, which can create huge losses for consumers once they find their property [For example: If a consumer forgets they have a Bitcoin in 2023, which is valued at $16 thousand, and if liquidated then the consumer would miss out on Bitcoin's current price at $89 thousand] (Arizona Legislature, 2025) • There is a lack of parity between digital assets and traditional assets in the unclaimed property process (Ryan LLC, 2025) • The state's financial interests must be protected from increasing economic volatility (Arizona Legislature, 2025)
	Policy: • Digital assets should be integrated into the state's financial and unclaimed property frameworks (Arizona Legislature, 2025) • Digital assets should be integrated into the state's public retirement fund (Arizona Legislature, 2025) • 10% of retirement funds should be allowed to be invested in digital assets (Arizona Legislature, 2025) • The State Treasurer should be able to hold digital assets and gain interest from the assets (Arizona Legislature, 2025) • 10% of non-bitcoin assets should be transferable to the general fund upon legislative approval (BitcoinLaws, n.d.) • The state should establish a fund consisting of seized assets and appropriated funds (Arizona Legislature, 2025) • The State Treasurer should be allowed to invest no more than 10% of the fund's total monies (BitcoinLaws, n.d.)
	Politics • The federal government has a Strategic Reserve Account, so states should follow that example (Axios, 2025) • The state has a Democratic Governor and a Republican controlled legislature (Ballotpedia, n.d.) • Democratic Governor Katie Hobbs vetoed a bill regarding integrating digital assets into retirement accounts because they are "untested investments" (The Defiant, 2025) • Governor Hobbs voted for bills involving active investment mechanisms, while favoring more passive and enforcement-heavy crypto bills (Decrypt, 2025)

Stream Conversion: H.B. 2749 was signed on May 6, 2025, taking a moderate approach to digital asset legislation by allowing passive investments through the unclaimed property process, but issuing vetoes to more active "untested investments" (Decrypt, 2025). This bill allows abandoned digital assets to be kept in their "native form", meaning they are not liquidated, after the traditional three-year dormancy period. The budget-neutral mechanism of this bill is that as these held assets grow in value, the legislature can appropriate 10% to their general fund. Democratic Governor Hobbs' mediated approach sought to balance a slew of pro-crypto bills from the Republican controlled legislature by signing on to consumer protection and budget neutral bills to ensure safety from the volatility of digital assets (Decrypt, 2025).

A California Focus

The diversity of models considered demonstrates a spectrum of considerations for the Golden State. Republican controlled legislatures tended to take bold action to set up reserves; however, contextualizing these decision-makers draws important conclusions:

- New Hampshire
  - The state's general fund is currently at $3.85 billion, which constitutes about 25% of the total budget (New Hampshire Fiscal Policy Institute, 2025).
  - 5% is allowed to be invested into digital assets by the State Treasurer, amounting to about $192.5 million (this is not counting their stabilization account or other funds allocated by the legislature).
  - Accountability for the fund ultimately falls to the legislature, since the State Treasurer does not face voters at the ballot box.
- Texas
  - The state's budget sits at $337.4 billion, second only to California (Texas Policy Research, 2025).
  - The $10 million investment in crypto is 0.00296% of their general fund, or about 113 bitcoins.
  - Their advisory committee is unique, but it has no authority to affirmatively affect the controller's decisions.
  - There are no mechanisms for an exit strategy that pre-sets conditions for liquidating digital asset holdings in case the market crashes, and biennial reports are not enough to get a clear picture of investment account status (Texas Policy Research, 2025).
- Arizona
  - This budget-neutral strategy relies on the rates of escheatment (when the government obtains ownership of unclaimed property), for which there is no discernible data on how many would be escheated (Investopedia, n.d.).
  - Since there is no specification on the type of cryptocurrency that should be held in the reserve fund, there is a possibility that assets will depreciate (especially if they are memecoins), limiting the ability to transfer funds to the general fund.
  - The rejection of an investment model by Democratic Governor Hobbs and claiming it as an "untested investment" complicates efforts by other non-Republican-dominated states to pursue similar legislation.

Altogether, this gives California a good sample size of cases to pull best practices in crafting a reserve fund. The next section will demonstrate what would fit with the influence, size, and digital asset presence in the state.

POLICY RECOMMENDATIONS

The following policy recommendations will address the research questions raised thematically for a California Digital Asset Strategic Fund, provide an MSA, and consolidate answers for the research questions.

Responsible Digital Asset Investment Strategies

1. A **qualified custodian or a third-party is necessary** to securely manage digital assets, as state financial systems are not structurally equipped to provide these services. California currently uses “100 brokers, dealers, banks, and direct issuers of commercial paper and corporate debt” in order to manage its PMIA, but a digital asset-specific custodian is necessary to prevent any unintended mismanagement. (California State Treasurer, n.d.). Additionally, custodians would need to be licensed through DFAL in order to provide these services for state custody services to ensure quality entities are handling these funds.

2. A **lead agency, such as the State Treasurer, and a governing board** is best equipped for responsible management; however, an account separate from the PMIA should be established. The PMIA already leverages the expertise of the State Controller, and DOF; however, adding more to a Digital Asset Investment Board (DAIB) would spur responsible developments. The following are recommendations for a seven-member board (including the Treasurer, Controller and DOF):

- DFPI representative
- Two appointed by the Governor (industry experts)
- One public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee.

This proposed board is a fusion of the PMIB and the CalPERS (the official name for the California Public Employees' Retirement System) governing board, the country's largest pension fund (California Public Employees’ Retirement System, n.d.). This composition allows the established principles from the PMIA (portfolio safety and diversification, liquidity, and rate of return) to merge with DFPI, which is the state’s digital asset licenser, ensuring a prioritization for steady returns and responsible investment. The Governor appointees and the legislative representative can represent the block that pushes for more innovative investments, leveraging the need for new strategies. The proposed model prioritizes safe investments, while allowing various opportunities for change via ballot box (Treasurer and Controller), by proxy through the Governor’s appointees, and the legislative appointee.

By establishing a governing board and a broad coalition of stakeholders, this proposal differs from the New Hampshire and Texas models by giving more opportunities for public input and diluting the decision-making powers for investments.

3. A **clear exit strategy needs to be established** to protect taxpayer funds. A top criticism of the Texas model is that it did not account for the possibility of major losses due to the volatile nature of digital assets. Acknowledging the state's focus on responsible digital asset innovation, California would benefit from this policy.

A recommendation would be to allow unlimited liquidation of assets once Bitcoin dips under the $500 billion market cap for a period longer than 12 months. This is using similar criteria as Texas and New Hampshire, but using it as a marker for a weakening market. Bitcoin is the most popular and valuable cryptocurrency on the market, and is equated to gold, as well as the only asset that some state reserve funds are allowing for investments. A highly underperforming Bitcoin for a long period should give a governing board a clear indication that the market is not going well, and it should execute its exit strategy.

4. A **monthly yield reporting mechanism** will ensure full transparency of the state's digital asset management. The PMIA also reports quarterly and annually, offering different levels of data for public view. These reports should include the same metrics used by the State Treasurer, but modified to fit digital assets:

- The type of investment, name of issuer, date of maturity, and dollar amount of each digital asset.
- The weighted average maturity of the investments.
- Any funds and investments under the management of qualified custodians.
- The market value as of the date of the report, and the source of this valuation for any digital asset.

This will address another concern within the Texas model, which was that biennial reports leave opportunities for financial mismanagement because of the volatile nature of cryptocurrencies (Texas Policy Research, 2025). Creating parity between the Digital Asset Strategic Fund and the PMIA in reporting requirements will legitimize this investment tool, bringing transparency to state finances.

Ensuring Fiscal Stability and Stable Returns

1. Allowing an **active investment strategy** will ensure a flexible mechanism for the state to leverage during market downturns and growth. Limiting investments to a $500 billion market cap, like in New Hampshire and Texas, allows only Bitcoin to be used, which disregards all the other quality coins in the market. A $10 billion market cap over the last year would allow a slightly larger pool of digital assets available for investments, while also granting some grace for a growing industry and its volatile nature. As of November 26th, 2025, that would include 12 different coins: Bitcoin, Ethereum, Tether, XRP, BNB, Solana, USDC, TRON, Dogecoin, Cardano, Wrapped Bitcoin, and Bitcoin Cash (Kraken, n.d.).

2. **Digital asset-specific strategies** that are fundamental to blockchain technologies are measured approach to ensuring fiscal stability. An additional reporting category should include the services that a designated investment provides as a justification for state funds. Each cryptocurrency project faces challenges in the blockchain ecosystem, and technological advancements, along with adaptability, allow them to evolve to fortify the system (Forbes, 2025). This way, the state is not only using existing metrics to evaluate investment decisions, but adding to the process and rewarding digital assets that advance modern financial technology. This would also deter state investments into “meme coins”, since those cryptocurrencies are meant to symbolize a cultural trend on the internet, rather than more project-focused coins.

3. Employing a **Dollar-Cost Averaging strategy** with recurring investments will help with the volatile nature of digital assets by gaining more coins in fluctuating markets, minimizing a time-based strategy (The Motley Fool, n.d.). This method of investment is popular among cryptocurrency investors, with nearly 60% employing this strategy over the long term, benefitting from investing capital into smaller increments and making several purchases at multiple different prices over an extended period (Kraken, n.d.).

4. A **state-wide digital asset payment program** will help spur recurring investments to the strategic fund. A handful of states—Colorado, Utah, and Louisiana—have implemented digital asset payment programs for state taxes and fees (Global Government Fintech, 2024). California has also taken preliminary steps to set up a pilot program for a stablecoin payment program (Morgan Hill Times, 2024). By expanding this program to all electronic payment systems in the state, whether that be Department of Motor Vehicles registration fees or state taxes, a portion can be liquidated to cover department costs, while the remainder of the unliquidated assets can be sent to the strategic fund for investing. This complements the Dollar-Cost Averaging strategy because investments can be made in periodic intervals as revenue from the program trickles in.

Qualified Custodian or Internal Tools

1. **Internal digital assets tools need to be gradually be adopted** within the state government. The state would need to build a work force with digital asset experience, and with advanced computer knowledge to code on the blockchain network, and also defend from malicious actors. As blockchain continues to expand and more ways to adopt it through financial and non-financial sectors increase, a state investment into a team capable of developing and understanding the technology will propel the its innovative capabilities. As seen through the current reserve funds established at the state level, qualified custodians continue to serve public needs and should, for the short term, continue to do so until the appropriate personnel and digital infrastructure is developed for internal use. In California, DFAL and recently enacted legislation regarding adding digital assets into the unclaimed property process demonstrate the beginning of a cultivation of dedicated experts in this field that often needs to rely on outside stakeholders to administer programs or understand the technology (The Block, 2025). With a strategic fund, the state would benefit from a California Digital Wallet to manage assets and have complete control of all operations, avoiding custodial contracts in the process. Further, practical uses of the blockchain technology also provides an additional incentive for these internal tools, as applicability in digitizing car titles, detecting fraud, and issuing birth certificates are exercised in government operations (Lee & Wang, 2025). With various digital asset projects happening simultaneously, this would allow a further sophistication of the state's ability to integrate the technology into everyday systems, spearheading the state's innovation economy.

Multiple Streams Framework Analysis

The strategic fund in California is analyzed through the problem, policy, and politics lens, which will help inform the policy aspects of this recommendation in **Table G**:

Table G - California Digital Asset Strategic Fund MSA:

California Digital Asset Strategic Fund	Problem • The state budget is very volatile, and needs strategies to mitigate these circumstances (Legislative Analyst's Office, 2025) • Sources of revenue for the state are unstable ((Legislative Analyst's Office, 2025) • State agencies do not have the infrastructure to manage digital assets (Chainlink Labs, 2025) • Digital assets have a reputation for being volatile (Investopedia, n.d.) Policy • The state should have a custodian manage digital assets (California Legislature, 2025) • The State Treasurer should have a governing board to decide investment strategies (California State Treasurer, n.d.) • A clear exit strategy should be established in case the market reaches consistent lows (Texas Policy Research, 2025) • A monthly yield reporting mechanism should provide transparency (California State Treasurer, n.d.) • An active and digital-asset specific investment strategy would provide a prudent use of public funds • A Dollar-Cost Averaging Strategy would allow the state to benefit from the volatility of the market (The Motley Fool, n.d.) • A recurring investment mechanism through a state payment program should be implemented (California Legislature, 2025) • Internal digital asset tools should be gradually adopted Politics • California Governor Gavin Newsom has signed digital asset bills relating to consumer protections, such as AB 39 and SB 822 (California Legislature, 2025) • The Democrat controlled legislature has largely supported regulations on digital assets, as well as studies to explore the benefits of blockchain (Office of Governor Gavin Newsom, 2022) • The Governor announced the California Breakthrough Project, which teams up with major crypto companies to explore how digital tools can make public services work better (San Mateo Daily Journal, 2025). • The state is home to about a quarter of the blockchain companies, with 1,543 organizations in California, making it the largest holder in the country (California Business, Consumer Services, and Housing Agency. 2020; Crunchbase, n.d.)

Stream Conversion: This proposed California Digital Asset Strategic Fund leverages the state's recent regulations that are focused on consumer protection and are seen as more conservative and cautious. By having various mechanisms for oversight, such as a governing board, exit strategies, and monthly yield reporting, it is consistent with the state's careful and existing approach to state finances (California State Treasurer, n.d.). Further, the prescribed active investment strategies and state digital asset payment program demonstrate innovative approaches often pursued by Governor Newsom and the legislature (San Mateo Daily Journal, 2025). Lastly, the concentration of blockchain companies in the state leads to a natural inclination to spearhead these ideas in government finance, since custodial services and potential crypto expert appointees to the board can help build a robust strategic fund (California Business, Consumer Services, and Housing Agency. 2020; Crunchbase, n.d.).

Answering the Research Questions

How could state responsibly integrate digital assets into its public investment strategies?

The State has three seperate case studies in New Hampshire, Texas, and Arizona that demonstrate varying levels of responsible management. This will guide how a regulation heavy state structures its digital asset integration:

1. Contracting with a qualified custodian that can provide secure digital asset services that the state is not equipped to do internally.
2. Designate the State Treasurer as the lead agency for the strategic fund, with a governing board made up of existing financial teams and industry experts to help guide investment decisions.
3. Establishing a clear exit strategy will help plan for a long-term digital asset market downturn, protecting public funds from severe depreciation.
4. Monthly yield reporting, which is the existing timeframe for state investment accounts, should be exercised to ensure transparency in state financial decisions.

How can the state ensure fiscal stability and stable returns with this new strategy?

As a leader in digital asset innovation, the state can leverage current investment practices in the industry, as well as mechanisms for recurring revenue into the strategic fund:

1. Engaging in an active investment strategy by allowing the state to invest in digital assets with a market cap larger than $10 billion provides the flexibility to manage different quality coins that emerge.
2. Digital asset-specific strategies, such as considering challenges that cryptocurrencies face in the blockchain ecosystem, their technological advancements, and adaptability to evolve, should be considered to ensure only the best receive public funds, essentially excluding meme coins in the process.
3. A Dollar-Cost Averaging strategy can shield the state from predicting trends in a volatile market, but instead ensures digital assets are bought even during market downturns, which will result in more coins in state possession that can be used when the market eventually spikes.
4. A state-wide digital asset payment program would help get recurring funds to support a Dollar-Cost Averaging strategy, and modernize the state's electronic payment systems.

How would the state invest in internal digital asset tools?

Developing these tools takes a significant amount of personnel and technological resources, but would advance California's technological capabilities:

- Relying on third parties to handle the responsibilities of managing assets is the safest option in the short term, but the wide applicability of blockchain in financial systems, as well as other practical abilities, makes it a versatile tool in an innovative economy.

REAL-WORLD IMPLICATIONS

California's state budget has structural issues that even a robust Strategic Fund cannot fix; however, using this tool can help keep crucial programs afloat or fund programs that did not seem to have a chance before (Legislative Analyst's Office, 2025). The growing industry, especially with the current federal administration, will eventually pressure more states to invest in some aspect of blockchain technology. Although setting up internal systems may seem redundant (and expensive) with the heavy presence of digital asset companies in the state, the ability to use blockchain technology for diverse applications can grant massive returns. Complete control over the technology can spur further sophistication, expanding the possibilities for integration into systems without fear of manipulation or privacy. There are reasonable cost concerns with digital asset tools, but it is important to understand that economies of scale can be achieved as more tools are used for different programs. The state needs to make initial investments to take advantage of this growing technology. With a Strategic Fund, California will also be a significant addition to the growing amount of funds sprouting throughout the country. With the advent of the world's 4th largest economy's stringent digital asset regulatory regime, investing in this market will undoubtedly lead to surges in the market and further legitimization (Paul Hastings LLP, 2024). If these types of investments are able to show meaningful returns despite volatility, there would be an option to see the state's other programs, such as retirement funds (CalPERS and CalSTRS) and endowments (CSU and UC), also integrate them into their systems. Interestingly, although there are a lot of prospects and streams that seem to converge for this policy idea, there are looming events that can affect California's future. The federal government's ability to preempt state licensure programs and its general adversarial relationship with the state can affect its ability for its comprehensive regulations to stay in place. This would affect the perceived ability that consumer protections are at the forefront of the state's licensure program, deteriorating its credibility as a stringent and safe place to do business. Also, the state does not have a clear vision past Governor Gavin Newsom's tenure in Sacramento, with a slew of candidates taking moderate to highly supportive positions in the digital asset industry. As states across the country see this technology as a way to advance public service and earn more money for programs, there will be more motivation to not only set up a program but also set up one that does not risk financial instability in the process.

CONCLUSION

A California Digital Asset Strategic Fund has the potential to help with the increasing need for states to find new revenue sources. As the digital asset industry grows, state after state exploring innovation in the tech space like never before. California, having a dense blockchain company presence, needs to show once again that well-crafted regulation and positive economic outlooks complement each other.

In this policy report, I explore the origins of crypto, how it is interacting with state governments, and how it is being used for public good. California's existing investment mechanisms are identified, seeing how prudent financial management works. Lastly, I use the Multiple Streams Analysis to see how legislation across the country has set up strategic reverse funds, identifying what policy ideas would work in a California-specific landscape. I identified nine policy recommendations to set up a fund that would bolster the need for revenue in the state to ensure that assets can easily integrate into state systems, ensure stable returns, and build up digital asset tools.

The Golden State must continue to innovate and work with the companies that build the future of financial tech to bring rewards for all of its residents. A California Digital Asset Strategic Fund brings one more tool that will enhance state finances, leading the way for a more stable economy during periods of increasing volatility.

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