

# State Bitcoin Reserve as a Fiscal Hedge

*Rationale, mechanics, and risk-reward profile of state-level Bitcoin reserves, with specific analysis for Rhode Island*

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This paper examines the rationale, mechanics, and risk-reward profile of state-level Bitcoin reserves, with specific analysis for Rhode Island's fiscal position and the growing national movement toward strategic digital asset holdings. As of mid-2026, three states have enacted Bitcoin reserve legislation (New Hampshire, Texas, and Arizona's narrower follow-up bill). Approximately two dozen states have introduced reserve legislation. The federal government holds an estimated 200,000+ BTC in the Strategic Bitcoin Reserve established by Executive Order in March 2025.

<b>200K+ BTC</b> U.S. Strategic Bitcoin Reserve (Treasury, est.)	<b>3 states</b> Have passed reserve legislation	<b>~24 states</b> Have introduced reserve bills	<b>EO of Mar 6</b> Established U.S. Strategic Bitcoin Reserve (2025)
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## 1. THE CASE FOR A STATE RESERVE

State governments hold cash reserves and investment portfolios to fund operations, pensions, and rainy day funds. These holdings are typically denominated in U.S. dollars or dollar-denominated assets (Treasury bonds, money market funds). While safe in nominal terms, these holdings lose purchasing power during inflationary periods. From 2020 through 2025, the U.S. dollar lost approximately 21% of its purchasing power as measured by CPI.

Bitcoin, with its mathematically fixed supply of 21 million coins, has attracted state-level interest as a potential hedge against monetary debasement. Bitcoin has produced positive returns over every completed four-year rolling window in its history, though returns have moderated as the asset has matured. Major institutions including BlackRock, Fidelity, and a growing number of public pension funds now hold Bitcoin in diversified portfolios.

### What a state reserve does (and doesn't do)

A state Bitcoin reserve is **not** a speculative trading position. It is a small allocation (typically 1–5% of certain state funds, with a market-cap floor on eligible assets) intended as a long-duration hedge against monetary debasement, held in cold custody under multi-signature controls.

## 2. CURRENT LANDSCAPE

### 2.1 Federal Strategic Bitcoin Reserve

President Trump signed an Executive Order on March 6, 2025 establishing the U.S. Strategic Bitcoin Reserve. The reserve is held by the Treasury Department (not the Federal Reserve) and is composed primarily of Bitcoin previously forfeited to the federal government through criminal and civil proceedings. Public reporting estimates the holding at roughly 200,000+ BTC, with some sources citing approximately 207,000 BTC.

The BITCOIN Act (S.954), introduced by Senator Cynthia Lummis on March 11, 2025, proposes that the federal government acquire up to 1 million BTC over five years, with a 20-year mandatory hold. As of mid-2026 the bill has been introduced but not advanced.

### 2.2 State-level reserve laws (enacted)

State	Bill	Signed	Key Provisions
New Hampshire	HB 302	May 2025	First state Bitcoin reserve law. Up to 5% of certain state funds in digital assets with market cap > \$500B.
Texas	SB 21	June 20, 2025	Strategic Bitcoin Reserve held outside the state treasury under the Comptroller. First purchase (\$5M via spot Bitcoin ETF) executed November 2025.
Arizona	Narrow follow-up bill	2025	After Gov. Hobbs vetoed the broader SB 1025 in May 2025, a narrower bill creating a reserve from unclaimed cryptocurrency was subsequently enacted.

### 2.3 States with active reserve bills (selected)

Approximately two dozen states have introduced Bitcoin reserve legislation, including Florida, Wyoming, Pennsylvania, Massachusetts, Oklahoma, North Carolina, Ohio, and others. Status varies

from "introduced" to "passed one chamber." A current tracker is maintained at [bitcoinlaws.io](https://bitcoinlaws.io).

## **3. IMPLEMENTATION MECHANICS**

### **3.1 Allocation framework**

Most state reserve laws cap the allocation at a small percentage of certain eligible state funds (typically 1–5%), with eligibility restricted to digital assets exceeding a market capitalization floor (commonly \$500 billion). This excludes substantially all altcoins and meme tokens at the time of enactment, in practice limiting eligibility to Bitcoin alone.

### **3.2 Custody**

Three custody models exist: state-operated cold custody (with multi-signature controls), qualified-custodian custody (e.g., Coinbase Custody, Fidelity Digital Assets), or spot Bitcoin ETF holdings (e.g., IBIT, FBTC). Texas's first purchase used the ETF route for execution simplicity. Direct state custody is operationally more complex but eliminates custodian counterparty risk.

### **3.3 Reporting and transparency**

Bitcoin's public ledger enables a level of holding transparency unavailable for most other state assets. Reserve holdings can be verified continuously through on-chain attestation, providing taxpayer-facing transparency typically associated with Norwegian-style sovereign wealth fund reporting.

## **4. RISK-REWARD ANALYSIS FOR RHODE ISLAND**

### **4.1 Sizing**

Rhode Island's general fund and rainy-day fund taken together are substantially smaller than Texas or Florida equivalents. A 1% allocation from eligible reserves would be a modest position. Even a 5% allocation capped at the rainy-day fund alone produces a position whose Bitcoin price sensitivity is small relative to the state's annual budget cycle.

### **4.2 Volatility and time horizon**

Bitcoin's realized volatility has decreased steadily as the asset has matured but remains higher than traditional state portfolio holdings. State reserve laws appropriately specify multi-year minimum hold periods (5–20 years) to align reserve mechanics with Bitcoin's long-duration profile. This is conceptually similar to how Texas operates its Permanent School Fund, where short-term volatility

is acceptable in service of long-horizon returns.

### 4.3 Fiscal hedging value

The hedging value of a state Bitcoin reserve is most relevant in scenarios of persistent monetary debasement. Rhode Island's structural deficit (RIPEC projects \$101M FY27 rising to \$537M FY31 annual) is a stress scenario where reserve asset purchasing power matters. A modest Bitcoin allocation provides asymmetric upside against this scenario without meaningful downside exposure given the small size of the position.

#### Recommended position for Rhode Island

A pilot allocation of up to 1% of rainy-day fund eligible reserves (subject to a \$500B market-cap floor on eligible assets, effectively Bitcoin only) is the most defensible starting position. This is materially smaller than what Texas, New Hampshire, and Arizona have authorized and provides exposure without significant downside.

## 5. COMPARISON TO OTHER STATE RESERVE ASSETS

Reserve Asset	Inflation Hedge	Liquidity	Carrying Cost	Volatility
Cash / Treasuries	Negative real return in inflationary periods	Very high	Low (modest yield)	Very low
Gold	Strong long-term hedge	Moderate (settlement)	Storage and insurance	Moderate
Real estate	Strong long-term hedge	Low	Property tax, maintenance	Low to moderate
Bitcoin	Strong long-term hedge to date	Very high (24/7 markets)	Custody only	High (declining)

## 6. RECOMMENDATIONS FOR RHODE ISLAND

1. Authorize a modest pilot Bitcoin reserve allocation (up to 1% of rainy-day fund eligible reserves) with eligibility limited to digital assets above a \$500 billion market cap floor — in practice, Bitcoin only.
2. Specify a minimum five-year hold period to align reserve mechanics with Bitcoin's long-duration profile.

3. Authorize three custody approaches: state-operated cold custody, qualified-custodian custody, or spot Bitcoin ETF holdings — with the Treasurer's office selecting based on operational capacity.
4. Require public on-chain attestation of holdings on a quarterly basis.
5. Sunset and review after five years, with full holdings disclosure to the General Assembly.

## APPENDIX: SOURCES AND REFERENCES

### Federal Strategic Bitcoin Reserve

- Executive Order "Establishment of the Strategic Bitcoin Reserve and U.S. Digital Asset Stockpile" (March 6, 2025); Federal Register 2025-03992
- White House Fact Sheet on Strategic Bitcoin Reserve (March 2025)
- BITCOIN Act, S.954 (119th Congress), introduced March 11, 2025 by Sen. Cynthia Lummis

### State Reserve Laws (Enacted)

- New Hampshire HB 302 (2025), signed May 2025 by Gov. Kelly Ayotte
- Texas SB 21 (2025), signed June 20, 2025 by Gov. Greg Abbott
- Arizona unclaimed cryptocurrency reserve bill (subsequent to SB 1025 veto, May 2, 2025)

### State Reserve Trackers

- Bitcoin Laws (bitcoinlaws.io), state Bitcoin legislation tracker
- National Conference of State Legislatures, cryptocurrency legislation tracker

### Industry and Market Data

- BlackRock iShares Bitcoin Trust (IBIT) prospectus and reporting
- Fidelity Digital Assets institutional services documentation
- Coin Metrics Network Data Pro, Bitcoin realized volatility series

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