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Crypto and the Muni Market: Why Are Some States Investing in and Promoting Crypto? - ArentFox Schiff

Cryptocurrency is creeping into the municipal market. This is an unusual development for a market known for its prudent fiscal practices. It is actually quite astonishing.

This article will describe the ways cryptocurrency has entered the municipal market, the general risks associated with utilizing cryptocurrency, and the risks this creates for market participants.

The Crypto Creep

A number of states have permitted state funds to be invested in cryptocurrencies. In New Hampshire, the state may invest 5% of its public funds in precious metals and digital assets as long as the asset has a market capitalization of over \$500 billion. Bitcoin is presently the only cryptocurrency that qualifies. Texas has passed a very similar law. Arizona establishes a process for the state to seize digital assets which qualify as abandoned property. A number of other states, including Massachusetts, Michigan, North Carolina, and Ohio, have introduced laws similar to New Hampshire's, some of which would allow up to 10% of public funds to be invested in cryptocurrency.

In addition, the New Hampshire Business Finance Authority is seeking to issue \$100 million of taxable bonds secured by bitcoin, \$150 million of which will be put in a statutory trust to both pay debt service on and secure the bonds. If the value of the bitcoin goes below a specified level, the trust will liquidate to redeem the bonds and mitigate loss. If the bitcoin appreciates over a specified level, the bondholders will share in the upside.

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