SATOSHI ACTION

The Case for a California Digital Asset Reserve

Assembly Banking & Finance Committee | Informational Hearing | February 18, 2026

Chaired by Assemblymember Avelino Valencia | Presented by Dennis Porter

Executive Overview

THE CONTEXT

1. Strategic reserves are standard practice

THE PROBLEM

2. California faces a structural budget challenge

3. State reserves are losing purchasing power

THE RESEARCH

4. A small BTC allocation would have made a big difference

THE LANDSCAPE

5. Federal and state governments have moved

6. Three states have signed reserve legislation

THE SOLUTION

7. California already has the infrastructure

8. A cost-neutral proposal funded by unclaimed property

9. Now is the time to act

Strategic Reserves Are Standard Government Practice

Shock Absorber

Currency Stability

Market Stability

Supply Chain

National Security

Monetary & Financial

- Gold Reserves (Fort Knox, NY Fed)
- Foreign Currency Reserves
- Strategic Bitcoin Reserve (Est. March 2025)

Energy & Natural Resources

- Strategic Petroleum Reserve (714M barrels)
- Uranium & Helium Reserves
- Rare Earth & Critical Minerals

Defense, Health & Agriculture

- Ammunition & weapons stockpiles
- National Stockpile (medical, PPE)
- USDA commodity reserves & seed bank

Digital assets are the newest addition to this toolkit — offering a hedge against inflation and a path to portfolio diversification at the state level.

California's Structural Budget Challenge

$10-20B

Projected deficits through FY 2028-29

$12.2B

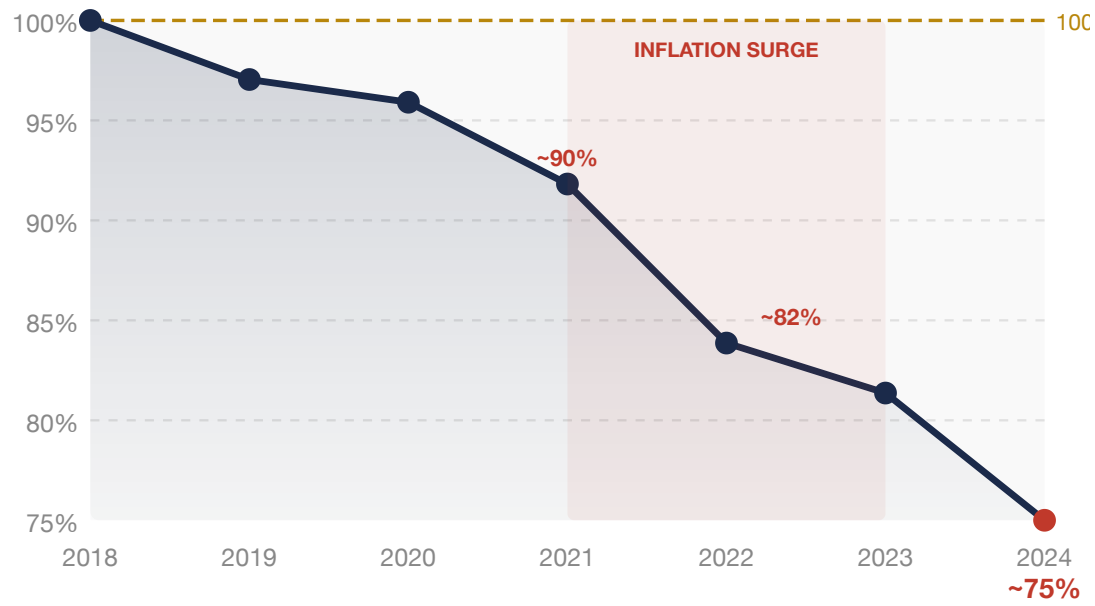
Withdrawn from Budget Stabilization Account over the last two fiscal years

~25%

Real purchasing power lost to inflation since 2018

California's revenue is heavily dependent on personal income tax and capital gains, creating boom-bust budget cycles. The state's reserves are being drawn down during a period when those dollars are **losing real purchasing power to inflation**.

State Reserves Are Losing Purchasing Power



Purchasing Power of $1 Held as Cash (CPI-Adjusted, 2018–2024)

Source: Rudd, Peterson & Porter (2025), counterfactual analysis of state reserve fund performance, 2018-2024

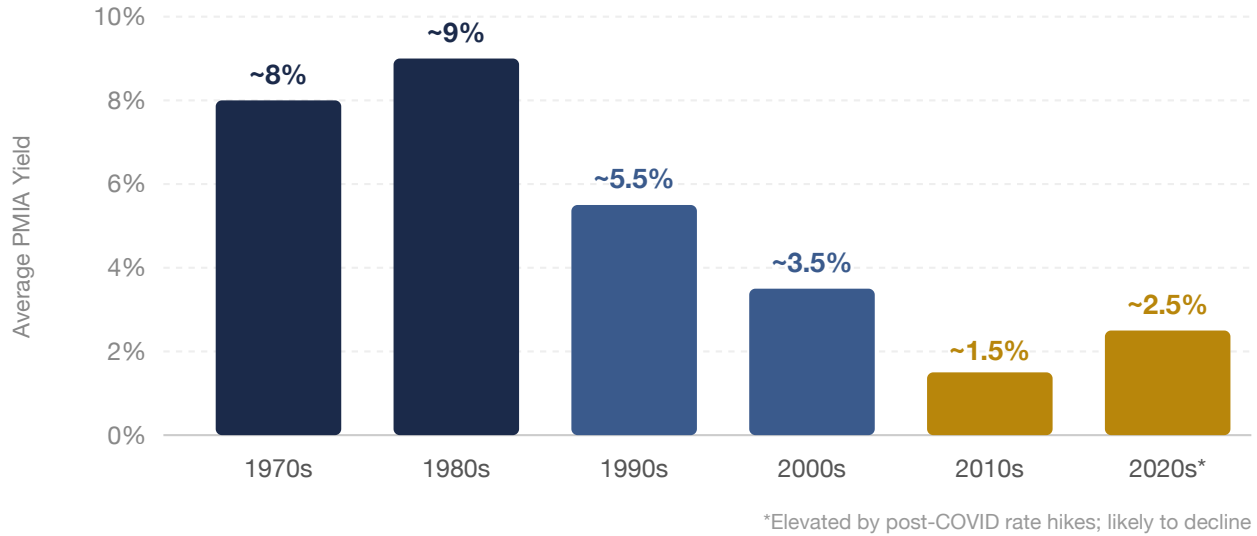
~25%

loss in U.S. dollar
purchasing power since 2018

Key findings (Rudd, Peterson & Porter, 2025):

- A 100% treasury strategy produced a **-1.48% CAGR** in real terms
- On $10M, that equals roughly **$1M in real purchasing power lost** over 7 years
- CPI-deflated values show treasury-only portfolios consistently **below the 100% purchasing power line**

PMIA Yield Compression Over Time



The structural decline in yields means California's **$14.4 billion Budget Stabilization Account** and **$23 billion in total reserves** (projected end of FY 2026-27) are losing hundreds of millions in real purchasing power annually.

Source: California State Treasurer's Office, PMIA historical yield data; LAO fiscal outlook (2025)

Research: What If California Had Diversified?

Rudd, Peterson & Porter (2025) conducted a counterfactual analysis of all 50 state rainy day funds from 2018-2024, using historical asset prices, actual state RDF cash flows, and CPI inflation data.

104.8%

California's improvement over holding cash with a 10% Bitcoin allocation

50

State rainy day funds analyzed in the counterfactual study (2018–2024)

KEY TAKEAWAYS: BITCOIN ALLOCATION VS. HOLDING CASH (DOLLAR PURCHASING POWER)

3% Bitcoin Allocation

~35% better than cash — 48 of 50 states fully beat inflation

5% Bitcoin Allocation

~45% better than cash — all 50 states fully beat inflation

10% Bitcoin Allocation

~70% better than cash — all 50 states fully beat inflation

Cash (Status Quo)

Lost ~25% purchasing power of the dollar over the same period

For California specifically, **just a ~1.7% allocation to Bitcoin would have fully offset inflation**. Even a 3% allocation outperformed holding cash in every state — and in 48 of 50 states, it fully offset cumulative inflation.

50-State Analysis: Bitcoin Allocation vs. Dollar Purchasing Power

Percent improvement over holding cash (dollar lost ~25% to CPI inflation, 2018–2024) | ■ ≥25% = fully beat inflation | Source: Rudd, Peterson & Porter (2025)

State	3% BTC	5% BTC	10% BTC
Alabama	30.8%	37.9%	55.9%
Alaska	24.4%	27.4%	35.0%
Arizona	40.3%	53.7%	87.6%
Arkansas	28.8%	34.5%	49.0%
California	45.4%	62.4%	104.8%
Colorado	43.9%	59.7%	99.4%
Connecticut	48.7%	67.9%	115.8%
Delaware	36.8%	48.1%	76.2%
Florida	31.0%	38.5%	57.0%
Georgia	32.6%	41.1%	62.1%
Hawaii	24.3%	27.2%	34.4%
Idaho	31.4%	39.1%	58.2%
Illinois	27.4%	32.4%	44.6%
Indiana	29.2%	35.4%	50.7%
Iowa	39.4%	52.3%	84.7%
Kansas	28.6%	34.4%	48.8%
Kentucky	25.3%	28.8%	37.5%
Louisiana	36.9%	48.2%	76.4%
Maine	31.4%	39.1%	58.0%
Maryland	36.6%	47.6%	75.3%
Massachusetts	36.8%	48.0%	75.8%
Michigan	33.8%	42.9%	66.0%
Minnesota	42.0%	56.7%	93.3%
Mississippi	39.9%	53.2%	86.4%

State	3% BTC	5% BTC	10% BTC
Montana	33.8%	42.9%	65.8%
Nebraska	29.6%	36.0%	51.8%
Nevada	28.5%	34.3%	48.6%
New Hampshire	30.3%	37.2%	54.4%
New Jersey	27.0%	31.5%	43.0%
New Mexico	53.8%	76.3%	132.7%
New York	33.3%	42.3%	64.5%
North Carolina	28.4%	34.0%	48.0%
North Dakota	52.0%	73.3%	126.6%
Ohio	38.8%	51.3%	82.6%
Oklahoma	33.3%	42.3%	64.6%
Oregon	35.2%	45.3%	70.6%
Pennsylvania	27.9%	33.3%	46.5%
Rhode Island	26.6%	31.0%	42.0%
South Carolina	44.5%	60.9%	101.7%
South Dakota	35.6%	46.0%	72.1%
Tennessee	36.1%	46.8%	73.5%
Texas	29.4%	35.6%	51.1%
Utah	37.6%	49.3%	78.6%
Vermont	43.4%	59.0%	98.0%
Virginia	30.2%	37.0%	54.0%
Washington	45.1%	61.8%	103.4%
West Virginia	35.2%	45.4%	70.8%
Wisconsin	34.4%	43.9%	67.9%
Wyoming	39.0%	51.6%	83.2%

The Federal Government Has Moved

March 2025

Executive Order — Strategic Bitcoin Reserve
Consolidated Treasury-held forfeited Bitcoin into a permanent strategic reserve.

2025

BITCOIN Act — Introduced
Proposes acquisition of 1 million BTC over 5 years, held in cold storage for 20 years.

July 2025

GENIUS Act Signed
First comprehensive federal stablecoin regulatory framework.

2025

SEC Posture Shift
Moved from enforcement-first to innovation and guidance framework.

> The federal government is treating digital assets as a **legitimate strategic reserve asset class**. States that align are positioning for federal coordination; those that don't risk being left behind.

State-Level Digital Asset Reserve Legislation

State	Bill	Model	Key Feature
New Hampshire	HB 302 (signed)	Permissive Investment	Up to 5% of public funds in digital assets >$500B market cap, via ETFs and qualified custodians. **Uses taxpayer dollars.**
Texas	SB 21 (signed)	Appropriations	$10M state funding; first state to purchase Bitcoin ($5M in BlackRock iShares Bitcoin Trust ETF, Nov 2025). **Uses taxpayer dollars.**
Arizona	HB 2749 (signed)	Staking Revenue	Unclaimed digital assets held in native form; staking rewards and airdrops generated from those assets fund the reserve. **Cost-neutral — no taxpayer dollars.**

Pending legislation: *Massachusetts, Maryland, Florida, and many others are actively working on their own digital asset reserve legislation.*

Three distinct approaches. New Hampshire and Texas use public funds. Arizona avoids general fund exposure using only staking revenue. **California's proposed model goes further — retaining escheated digital assets as a strategic reserve, while remaining cost-neutral.**

A Cost-Neutral Model Built for California

THE CHALLENGE

- California faces chronic budget deficits — allocating general fund revenue to digital assets is politically untenable
- General fund dollars are taxpayer dollars; directing them risks being framed as "gambling with public money"
- New Hampshire and Texas can authorize direct purchases given their political landscapes, but that approach doesn't fit California
- Any framework must avoid adding pressure to the structural deficit

THE SOLUTION: COST-NEUTRAL BY DESIGN

- Funded entirely through **unclaimed digital property** escheated under SB 822
- **Zero general fund appropriation** — no taxpayer dollars at risk
- Operational costs covered by liquidating a portion of fund assets
- **Self-sustaining from day one**
- **10% of fund assets deposited to general fund** (with legislative approval)
- Politically defensible: the state is already holding these assets; this simply manages them strategically

This is not New Hampshire or Texas. California's model funds itself through unclaimed property — not taxpayer dollars. The reserve is self-sustaining and revenue-generating.

California Has Already Built the Infrastructure

Regulatory Framework

- **Digital Financial Assets Law (DFAL / AB 39)** — effective July 2026, licensing framework for digital asset businesses
- **DFPI** established as California's digital asset regulator
- **SB 822** — unclaimed digital property framework (signed 2025); Controller's Office already custodying crypto through qualified custodians
- **This committee and its Chair** played a key role in building the policy infrastructure that made SB 822 possible

Institutional Scale

- **CalPERS:** $500B+ AUM, adopted Total Portfolio Approach (takes effect July 2026)
- **CalSTRS:** $392B AUM
- **PMIA:** strict reporting, liquidity, diversification, and safety standards already in place
- **State Controller's Office:** already holding digital assets in native form as a state function

The question is not whether California can do this. The infrastructure, regulatory framework, and institutional expertise already exist.

Proposed Framework: The Digital Asset Reserve Fund

How It Could Work

- Unclaimed digital financial assets escheat to the Controller under existing SB 822 procedures
- Custodians (e.g., Coinbase, Kraken, Gemini) transfer **unliquidated** assets to the Controller's qualified custodian — estimates suggest a single exchange may hold over **$100M** in unclaimed property
- Controller converts assets to **high-quality digital assets** meeting a market-cap eligibility threshold
- Assets deposited into a dedicated Digital Asset Reserve Fund

Suggested Governance Structure

- Create an **advisory board** to advise the Controller on administration, valuation, and investment policy
- Include representation from the Controller's Office, Treasurer, Legislature, and Governor's appointees
- Require board members to have expertise in digital financial asset investments

Suggested Revenue & Cost Model

- A **portion of fund assets** could be deposited to the state general fund with legislative approval
- Administrative and management costs paid from fund assets — not the general fund
- Allow the Controller to engage professional investment analysts to assist with decisions

Suggested Custody Framework

- Require custodians to hold **appropriate state and federal licenses**
- Evaluate custodians on security, key management, experience, regulatory compliance, and reporting
- Ensure custodians meet **federal anti-money-laundering** obligations

Comprehensive Risk Management Framework

MARKET RISK

- Establish **market-cap eligibility thresholds** to limit exposure to only the most liquid, established digital assets
- Convert miscellaneous escheated tokens into high-quality assets to reduce speculative exposure
- Authorize liquidation pathways so the state can access funds when fiscal needs arise

CUSTODY RISK

- Conduct **periodic audits** of custodian security, key management, and insurance coverage
- Require **multi-signature controls** and geographic distribution of cold storage
- Maintain documented **incident response** and custodian succession plans

OPERATIONAL RISK

- Allow the state to engage **professional investment analysts** with digital asset expertise
- Create an advisory board to provide institutional guidance on valuation and allocation policy
- Cover administrative costs from fund assets — **no general fund exposure**

TRANSPARENCY & OVERSIGHT

- Implement **regular public reporting** on holdings, valuations, and changes
- Include legislative representation on the advisory board
- Require legislative approval before any transfers to the general fund
- Subject the fund to existing state audit and oversight frameworks

SB 822 Provides the Launchpad

STEP 1 — Already Done

SB 822 (Signed 2025)
State Controller's Office holds unclaimed digital property in native digital form through qualified custodians. California is already custodying cryptocurrency as a state function.

STEP 2 — Proposed Amendment

Digital Asset Reserve Fund
Amend SB 822 to create the reserve fund, define high-quality digital assets, establish the advisory board, and authorize strategic management.

STEP 3 — Operational

Strategic Management
Controller converts escheated assets to high-quality digital assets, manages with advisory board guidance, reports quarterly, deposits 10% to general fund.

This committee and its Chair played a key role in building the policy infrastructure behind SB 822. The Digital Asset Reserve Fund is a natural extension — expanding from passive custody to strategic management.

What This Proposal Is and Is Not

NOT

- ✕ Spending taxpayer dollars on digital assets
- ✕ Raiding the general fund or PMIA
- ✕ Speculative gambling with public money
- ✕ Replacing conservative investment standards
- ✕ Removing legislative oversight or transparency
- ✕ An unregulated experiment

IS

- ✓ Cost-neutral — funded entirely through unclaimed property
- ✓ Revenue-generating — 10% of assets flow to the general fund
- ✓ Governed by an advisory board with legislative representation
- ✓ Subject to quarterly public reporting
- ✓ Built on California's own regulatory infrastructure (DFAL, DFPI, SB 822)
- ✓ Aligned with federal strategic reserve direction

Why Now Is the Time for California to Act

The Momentum Is Here

- Federal Strategic Bitcoin Reserve established (March 2025)
- 3 states signed digital asset reserve legislation into law
- Bitcoin ETFs approved and adopted by institutional investors
- Major banks integrating custody and trading services
- Federal stablecoin framework enacted (GENIUS Act)

The Cost of Waiting

- California's reserves lose real purchasing power every year — a 100% treasury strategy has produced **negative real returns since 2018**
- NH, TX, and AZ have all signed digital asset reserve legislation — California risks being a **follower rather than a leader**
- Tech talent and blockchain companies migrating to more favorable jurisdictions
- Unclaimed digital assets are currently being **liquidated by default** rather than strategically retained

California is home to Silicon Valley and the nation's largest tech ecosystem. A reserve fund **retains escheated assets strategically**, allowing long-term appreciation rather than forced selling.

Structured Innovation Strengthens Fiscal Resilience

1

Responsible Diversification

Backed by counterfactual research showing even small allocations preserve purchasing power across all 50 states studied.

2

Cost-Neutral & Revenue-Generating

Funded through unclaimed property. 10% flows to general fund. Zero taxpayer dollars at risk.

3

Strong Guardrails & Transparency

Advisory board, quarterly reporting, DFPI-licensed custody, high-quality asset thresholds, and federal anti-money-laundering compliance.

4

Built on California's Foundation

SB 822, DFAL, DFPI, and institutional expertise already in place.

RECOMMENDED NEXT STEP

We respectfully ask this committee to explore amendments to SB 822 that would create a Digital Asset Reserve Fund — converting passive custody of unclaimed digital property into strategic, transparent management for the benefit of California.

"The goal is disciplined modernization — not speculation."

Appendix: 50-State Analysis vs. Treasury-Only Baseline (EFFR)

Percent increase in real return relative to 100% EFFR-only allocation, Jan 2018 – Dec 2024 | Source: Rudd, Peterson & Porter (2025)

State	Baseline ($M)	3% BTC	5% BTC	10% BTC
Alabama	$2,268.7	9.0%	14.9%	29.9%
Alaska	$2,312.6	3.7%	6.2%	12.5%
Arizona	$1,282.1	16.9%	28.1%	56.3%
Arkansas	$1,532.3	7.3%	12.1%	24.2%
California	**$27,009.8**	**21.2%**	**35.3%**	**70.7%**
Colorado	$1,712.4	19.9%	33.1%	66.2%
Connecticut	$3,531.9	23.9%	39.9%	79.8%
Delaware	$290.1	14.0%	23.4%	46.8%
Florida	$3,528.4	9.2%	15.4%	30.8%
Georgia	$4,797.0	10.5%	17.6%	35.1%
Hawaii	$1,256.1	3.6%	6.0%	12.0%
Idaho	$1,009.2	9.5%	15.9%	31.8%
Illinois	$1,754.0	6.2%	10.3%	20.5%
Indiana	$1,679.0	7.7%	12.8%	25.6%
Iowa	$847.0	16.2%	26.9%	53.9%
Kansas	$1,427.1	7.2%	12.0%	24.0%
Kentucky	$4,301.9	4.4%	7.3%	14.6%
Louisiana	$908.9	14.1%	23.5%	47.0%
Maine	$839.0	9.5%	15.9%	31.7%
Maryland	$2,104.2	13.8%	23.0%	46.1%
Massachusetts	$7,567.5	14.0%	23.3%	46.5%
Michigan	$1,731.9	11.5%	19.1%	38.3%
Minnesota	$2,894.0	18.3%	30.6%	61.1%
Mississippi	$553.1	16.6%	27.7%	55.3%

State	Baseline ($M)	3% BTC	5% BTC	10% BTC
Montana	$434.9	11.5%	19.1%	38.2%
Nebraska	$831.8	8.0%	13.3%	26.5%
Nevada	$1,044.6	7.1%	11.9%	23.8%
New Hampshire	$252.2	8.6%	14.3%	28.7%
New Jersey	$267.7	5.8%	9.6%	19.2%
New Mexico	$2,693.4	28.2%	46.9%	93.9%
New York	$5,359.4	11.1%	18.6%	37.1%
North Carolina	$4,103.5	7.0%	11.7%	23.3%
North Dakota	$784.7	26.7%	44.4%	88.8%
Ohio	$3,300.9	15.7%	26.1%	52.2%
Oklahoma	$1,721.4	11.1%	18.6%	37.2%
Oregon	$2,215.4	12.7%	21.1%	42.2%
Pennsylvania	$5,308.4	6.6%	11.1%	22.1%
Rhode Island	$241.6	5.5%	9.2%	18.3%
South Carolina	$1,037.3	20.4%	34.1%	68.1%
South Dakota	$216.7	13.0%	21.7%	43.4%
Tennessee	$1,769.8	13.4%	22.3%	44.6%
Texas	$17,409.2	7.8%	13.0%	25.9%
Utah	$1,045.0	14.7%	24.4%	48.8%
Vermont	$268.2	19.5%	32.5%	65.0%
Virginia	$4,166.5	8.5%	14.2%	28.3%
Washington	$1,571.6	20.9%	34.8%	69.5%
West Virginia	$1,087.0	12.7%	21.2%	42.3%
Wisconsin	$1,643.4	12.0%	19.9%	39.9%
Wyoming	$1,349.1	15.8%	26.3%	52.7%

Citations & Methodology

SOURCES CITED IN THIS PRESENTATION

Rudd M.A., Peterson E., Porter D. (2025). "A counterfactual analysis of Bitcoin and gold allocations to USA 'Rainy Day Funds': supporting state lawmakers' decision-making." *Satoshi Action Education.*

→ 50-state data tables, allocation modeling, EFFR baseline comparisons, California-specific performance (slides 7–9)

Torres, Luis (Fall 2025). "A California Digital Asset Investment Strategy." Policy Report, Department of Public Policy & Administration, *California State University, Sacramento.*

→ California fiscal context, PMIA analysis, state case studies (NH, TX, AZ), policy framework for digital asset integration

California State Treasurer's Office. Pooled Money Investment Account (PMIA) historical yield data.

→ PMIA yield compression chart (slide 6)

California Legislative Analyst's Office (2025). California's fiscal outlook and budget projections.

→ $10–20B projected deficits, $12.2B BSA withdrawals, reserve balances (slide 4)

National Association of State Budget Officers (NASBO). Annual state Rainy Day Fund balance data, 2017–2024.

→ Historical RDF balances used in the Rudd et al. counterfactual model

U.S. Bureau of Labor Statistics / Federal Reserve Bank of Cleveland. Consumer Price Index (median CPI) data, 2018–2024.

→ Inflation adjustment: 23.5% cumulative loss in dollar purchasing power (slides 5, 7)

STUDY METHODOLOGY

Study: Rudd, Peterson & Porter (2025) conducted a counterfactual analysis of all 50 state Rainy Day Funds from January 2018 to December 2024.

Data Sources: Historical RDF balances from NASBO (converted to daily flows); daily Bitcoin closing prices from Investing.com; London Bullion Market Association gold spot rates; Effective Federal Funds Rate (EFFR) as the "risk-free" baseline; Federal Reserve median CPI data for inflation adjustment.

Model: Each state's simulation begins with its actual Dec 31, 2017 RDF balance. Daily allocations are split across EFFR, gold, and Bitcoin at the chosen percentages. EFFR earns daily interest; gold and BTC are bought/sold at daily market prices based on each state's actual contribution and withdrawal flows. A safeguard prevents negative BTC balances during heavy withdrawal periods.

Inflation Adjustment: All portfolio values are converted to real (CPI-deflated) terms daily. The CPI index reached 130.69 by Dec 2024, representing a 23.5% loss in dollar purchasing power over the period.

Allocations Tested: Bitcoin at 0%, 1%, 2%, 3%, 5%, and 10%; Gold at 0%, 1%, 2%, 5%, and 10%. Remaining balance allocated entirely to EFFR.

Why States Differ: Each state has different timing and amounts of contributions/withdrawals. States that added funds when BTC was cheaper or withdrew when it was more expensive performed better.

Baseline Finding: A 100% EFFR-only strategy yielded a CAGR of –1.48%, equating to ~$992K in real purchasing power loss on a $10M investment over the 7-year period.