



MEMORANDUM

TO: Mayor and Council

FROM: Belinda Weaver, Treasurer *Belinda Weaver*
Marija Jukic, Controller *MJ*
Daniel Culotta, Interim Chief Innovation Officer *DC*

THROUGH: Veronica Briseño, Assistant City Manager
Jason Alexander, Chief of Staff

DATE: September 14, 2022

SUBJECT: Cryptocurrency Fact-Finding Study (Resolution No. 20220324-055)

On March 24, 2022, Council approved [Resolution No. 20220324-055](#), which directed the City Manager to conduct a fact-finding study regarding potential Bitcoin or other cryptocurrency policies that might be adopted by the City of Austin (“the City”) including:

- 1) the acceptance of Bitcoin or other cryptocurrencies as payment for municipal taxes, fees, and penalties;
- 2) other applications of Bitcoin or other cryptocurrencies that could benefit the City of Austin, the delivery of public services, or Austin residents;
- 3) issues relevant to Bitcoin or other cryptocurrency protocols and applications including, but not limited to, financial stability, security issues, equity and inclusion issues, consumer benefits and risks, and environmental impacts;
- 4) considerations related to any applicable state, local, or federal laws;
- 5) considerations related to the research and recommendations from ratings agencies, financial regulators, or financial oversight organizations on the use of cryptocurrency technology or blockchain by municipal government.

The fact-finding study should include an analysis of what would be required for the City to accept a donation of Bitcoin or other cryptocurrency and possible ways for the City to use those funds to address public service needs as well as an analysis of the financial stability and security of cryptocurrency.

This memorandum provides the results of the fact-finding study, which was a collaborative effort between the Financial Services Department, Law Department, Intergovernmental Relations and Innovation Offices.

Fact Finding #1 – Acceptance of cryptocurrency as payment for municipal taxes, fees, and penalties

Under existing regulations, cryptocurrency is not an acceptable form of payment for the collection of municipal taxes, fees, and penalties. To accept cryptocurrency for the payment of taxes, fees, and penalties collected by the City, the City would be required to utilize a third-party payment processor to convert the cryptocurrency to an acceptable payment format. In addition to annual contract costs, the City would be required to develop integration processes between the third-party payment processor and each payment application that the City would like to utilize for cryptocurrency payments. Finally, there are transaction fees associated with the use of these third-party payment processing applications. Transaction fees can vary considerably and currently have no cap.

The collection of property taxes and public improvement district assessments is managed by Travis County and the collection of sales taxes is managed by the State of Texas; therefore, Travis County and the State of Texas must have a third-party payment processor in place to convert the cryptocurrency to an acceptable payment format for these taxes and assessments. The decision to utilize a third-party payment processor to accept payment of cryptocurrency for taxes and assessments collected by Travis County and the State of Texas is at the sole discretion of each collecting entity.

Chapter 2256 of the Texas Government Code prohibits the City from holding cryptocurrency, therefore, to accept a donation of cryptocurrency, the City would be required to utilize a third-party payment processing application to convert the donation to U.S. currency.

Fact Finding #2 – Applications of cryptocurrency that could benefit the City of Austin, the delivery of public services, or Austin residents

Because the City cannot currently accept Bitcoin or other cryptocurrencies as a form of payment (and they are not widely accepted as forms of payment by other businesses and organizations), and considering the evolving regulatory environment and potential for risk and fraud in cryptocurrency markets and products, we have not identified any additional applications of Bitcoin or other cryptocurrencies that could benefit the City of Austin, the delivery of public services, or Austin residents at this time. However, the response to [Resolution No. 20220324-057](#) outlines potential use-cases for other types of blockchain-based technologies.

Fact Finding #3 – Issues relevant to cryptocurrency protocols and applications

Financial and Security Issues

Volatility, lack of regulation, and illiquidity are significant concerns surrounding acceptance of Bitcoin and other cryptocurrencies. Frequent and substantial value fluctuations make cryptocurrency a significantly risky asset. Such volatility was demonstrated earlier this year, with the cryptocurrency market losing over \$2 trillion in value in a matter of months. Lack of regulation of the cryptocurrency market has contributed to this volatility and other fraudulent activity. There have been numerous cases of digital asset companies going bankrupt, freezing assets and/or suspending withdrawals, causing investors to experience losses and/or not have access to digital currency when needed. Fraud within the virtual currency market has largely been concentrated in money laundering, fake cryptocurrency investment opportunities, and cybercrime, with most cyberattacks requiring payment through cryptocurrency. Finally, Bitcoin and other cryptocurrencies are viewed as an illiquid asset, since exchanging the asset for cash comes at a cost and takes an undefined amount of time.

Equity and Inclusion Issues

Information on the equity and inclusion issues of cryptocurrencies and blockchain can be found in the response to [Resolution No. 20220324-057](#).

Consumer Benefits and Risks

Although there may be certain consumer benefits associated with use of Bitcoin and other cryptocurrencies, the risks far outweigh the benefits. Positive consumer aspects that have been suggested by various sources include ease of access, the ability to use internationally, and a faster payment option. The consumer risks associated with cryptocurrency include, but are not limited to, volatility of the digital asset (unpredictable value), illiquidity (difficulty cashing out), unregulated industry (no governmental backing to protect the asset and fraud), and losing access to virtual currency due to fraud, hacking or loss of private digital key.

Environmental Impacts

Bitcoin and other cryptocurrencies have been gaining more attention due to the extensive amount of energy that the digital assets require, which in turn leads to increased greenhouse gas emissions. Annual Bitcoin energy consumption is as much as the annual energy consumption of many countries. More information on the environmental impact of cryptocurrencies and blockchain can be found in the response to [Resolution No. 20220324-057](#).

Fact Finding #4 – Considerations related to applicable state, local, or federal laws

Legal analysis was provided in a separate memorandum from the Law department. However, the Intergovernmental Relations Office shares that during the 87th Regular Legislative Session, lawmakers passed two bills related to bitcoin or other cryptocurrency with broad bipartisan support: [HB 4474 \(Parker/Paxton\)](#) recognized cryptocurrency in the state's Uniform Commercial Code and [HB 1576 \(Parker/Paxton\)](#) established the Work Group on Blockchain Matters, tasked with developing a master plan for the expansion of the blockchain industry in Texas. On the federal level, Congress has considered [multiple proposals](#) seeking to regulate the industry to various degrees, however none have been successful.

Additionally, in March 2022, President Biden issued an [executive order](#) calling on the government to examine the risks and benefits of cryptocurrencies. The Order lays out a national policy for digital assets across six key priorities: consumer and investor protection; financial stability; illicit finance; U.S. leadership in the global financial system and economic competitiveness; financial inclusion; and responsible innovation. IGRO will continue to monitor developments at the state and federal level.

Fact Finding #5 – Considerations related to the research and recommendations from ratings agencies, financial regulators, or financial oversight organizations

The Government Finance Officers Association (GFOA), the nation's leading association for government finance officials, issued guidance in March 2022 advising government entities to abstain from accepting cryptocurrency for receivables, use of cryptocurrency for payables, and investing in cryptocurrency (<https://www.gfoa.org/materials/cryptocurrency-advisory>). GFOA centers its concerns on the lack of regulation, volatility, and illiquidity of the currency. S&P Global Ratings and Fitch Ratings, two of the leading credit rating agencies, have each published research on cryptocurrency for local and state governments and provided an assessment of the risks for digital currency acceptance for public entities. S&P's concerns are concentrated on regulatory issues, ESG (environmental, social, and governance) factors, and volatility. Fitch focuses on lack of regulation, price volatility, ESG matters, and cybercrime as the main issues. Overall, given the current environment, there is much speculation and concern regarding acceptance or investment in cryptocurrency by government entities.

City staff will continue to monitor the Bitcoin and cryptocurrency markets, with a specific focus on regulation of the industry.

If you have additional questions, please contact Belinda Weaver, Treasurer, at belinda.weaver@austintexas.gov or 512-974-7885 or Marija Jukic, Controller, at marija.jukic@austintexas.gov or 512-974-2951.

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