



# CITY OF MANITOWOC

WISCONSIN, USA

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April 9, 2025

TO: Members of the Public Safety Committee  
FROM: Eric Nycz, City Attorney  
Re: Cryptocurrency Kiosks/ATMs

## Background

In the past few years, the Police Department has seen a significant number of reports of scams arising from cryptocurrency kiosks located in the City and recently approached the City Attorney's Office to discuss what options the City has to regulate these kiosks to better protect the community.

## Issue Presented

This is an entirely new area of concern for the policing community. Wisconsin has been slow to address this issue, while several states are reacting with more urgency, including Nebraska, which enacted a new law in March to address this issue. There are three approaches that I have identified to address the issue:

1. Warning/Caution signage
2. Moratorium on new machines
3. Ban the machines within city limits

Each option presents an escalating risk of litigation from ATM operators (such as Coinbase or Bitcoin). This memorandum will attempt to clarify the reasons action is needed and the strengths and weaknesses of each of these listed approaches.

## Discussion

### 1. What are cryptocurrency kiosks?

Cryptocurrency kiosks/ATMs or Virtual Currency kiosks/ATMs ("Kiosks") look like an ATM and are found in convenience stores, pharmacies, tobacco shops and grocery stores, but instead of dispensing cash, their purpose is to allow consumers to sell and purchase cryptocurrency.

A Kiosk can be defined as a stand-alone electronic kiosk that allows users to buy and sell cryptocurrency in exchange for cash or with a debit card. A cryptocurrency is a virtual currency that utilizes cryptography to secure transactions that are digitally recorded on a cryptographically secured, distributed ledger (blockchain).

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CITY ATTORNEY ERIC NY CZ

CITY HALL ■ 900 QUAY STREET ■ MANITOWOC, WI 54220  
PHONE: (920) 686-6990 ■ EMAIL: [CITYATTORNEY@MANITOWOC.ORG](mailto:CITYATTORNEY@MANITOWOC.ORG)



The Kiosks accept cash from consumers and then do the following with it:

1. Credit it to the account of another person
2. Move it from one account to another account for the same person
3. Relinquish control of the currency to another person



(An example of a Kiosk)

There are many brands of kiosks that sell different types of cryptocurrency. While some legitimate transaction may take place through these kiosks, the machines have quickly become a preferred payment method for scammers.

## 2. Are these Kiosks regulated?

Kiosk operators are regulated federally by the U.S. Treasury Department Financial Crimes Enforcement Network (“FinCEN”). Kiosk operators must register with FinCEN as a “money service business” and meet the recordkeeping requirements from the Bank Secrecy Act and anti-money laundering statutes, **but the Kiosks themselves are not regulated by this Act.** Wis. Stat. Ch. 217, the “Money Transmitters” law, does not



currently give the Department of Financial Institutions the authority to regulate virtual currency. The Division of Banking (DOB) is therefore unable to license or supervise companies whose business activities are limited to those involving virtual currency.

All transactions conducted at Kiosks are accompanied by high percentage-based fees. The Kiosk operator often marks up the cryptocurrency by 20-30%. Frequently, the hosting business (where the Kiosk is located) also receives a percentage of this markup. Based on an ongoing investigation by the Iowa Attorney General, they have discovered that the majority of scam victims were over the age of 60. However, the scams cannot be connected to the operators or the host businesses, so neither the operator nor the host can be charged with crimes. During its investigation, however, the Iowa Attorney General discovered that two of the largest Kiosk operators were violating the Iowa Consumer Fraud Act. On February 26, 2025, the Iowa Attorney General announced that it is suing both BitCoin and CoinFlip for imposing excessive and often hidden transaction fees, ranging from 21%-23% of the transaction. When you consider the high volume of scam transactions being performed at Kiosks, coupled with the excessive fees that are being charged at the Kiosks, both the operator and the host are profiting from the victims.

It is important to remember that consumers who wish to purchase cryptocurrency are not prevented from doing so using a computer or an app, where the fees are lower (often a flat rate of \$.10 to \$1.00 per transaction) and cash is not required.

### **3. How are these Kiosks used in fraud schemes?**

Criminals manipulate, intimidate, and threaten their victims into using the Kiosks to send cash/cryptocurrency. Typically, the schemes are an allegation that the victim has committed a crime and needs to pay money to avoid jail, or that they are due a payment or owe a payment on PayPal, or some sort of investment scheme, or the scammer falsely represents themselves as government officials or law enforcement officers. In a scam reported in the Des Moines Register on March 24, 2025, the Iowa Attorney General's office stated that scammers were posing as someone from the Attorney General's Office and were conning victims with cryptocurrency ATM scams by requesting their personal or financial information for an alleged refund. The press release stated that the scammers are targeting people through social media platforms like Facebook and Telegram. The scam even uses photos of the Iowa Attorney General and a seal claiming to be from the Division of Criminal Investigation.

***“These con artists are so evil that they are even pretending to be me,” Attorney General Bird said. “If someone claiming to be from my office offers you a refund for crypto ATM scams, it's fake. Call my office for help at 1-888-777-4590, and do not send money, personal information, or financial information.”***

Scammers have found an open door through these Kiosks to easily take cash from victims. Without stronger federal or state regulations, there is no way to stop them. According to the City of Forest Lake Police Department (Minnesota), that city reported losses totaling over \$300,000 from incidents of fraud via Kiosks in the last two years; White Bear Lake (Minnesota) reported about \$125,000 from 2023; and Woodbury (Minnesota) had \$6.6 million in reported cryptocurrency losses since 2021. The Wood County (Wisconsin) Sheriff's Department was able to return \$20,000 to a scammed resident, but was sued by Coinhub for doing so. (The Department ultimately won the lawsuit at the Court of Appeals, *see LSGT Services LLC v County of Wood*, 2024 AP 1572-FT, Wis. Ct. App.).

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CITY ATTORNEY ERIC NYCZ

CITY HALL ■ 900 QUAY STREET ■ MANITOWOC, WI 54220  
PHONE: (920) 686-6990 ■ EMAIL: CITYATTORNEY@MANITOWOC.ORG



For further reading on this matter, I have attached the FBI's 2023 Cryptocurrency Fraud Report to peruse at your leisure.

#### **4. What are the solutions?**

As mentioned above, there are three approaches that I have identified to address the issue:

1. Warning/Caution signage
2. Moratorium on new machines
3. Ban the machines within city limits

I have attached a draft ordinance that could be adopted to warn users of the fraud connected to these machines. This is the action that is least likely to result in litigation against the City. In fact, there is almost no chance that the City would be sued as a result of the adoption of the attached ordinance.

The second and third options are more aggressive. The City has inherent police powers to regulate for the safety and welfare of the community. As such, the City could enact a moratorium on new virtual currency Kiosks, meaning the Kiosks in the city may remain, but no new Kiosks could be added. The risk here would come from a provider seeking to enter the Manitowoc market. There may be some litigation risk here but it is significantly less than an outright ban, as Kiosk providers that have already invested here would lose that opportunity moving forward. An outright ban presents the most likely risk of litigation.

#### **Recommendation from the City Attorney**

I believe the City would prevail in litigating this matter, under any of the three options. However, the Council must weigh the benefit of proposed action against being "first" in this area and, thus, a likely litigation target. I would suggest taking a prudent course of action and acting on the attached proposed ordinance. We can then track its effect on fraud. With any luck, it will eliminate the issue (certainly it will help) and make further oversight unnecessary. If not, we can always revisit the second and third options.

Thank you for your consideration.