

## **BILL ANALYSIS**

Senate Research Center

S.B. 13  
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Natural Resources & Economic Development  
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Enrolled

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Oil and natural gas represents nearly a third of Texas's GDP and funds more than 10 percent of the state's budget. The burgeoning fossil fuel discrimination movement is denying capital to our responsible, hard-working energy businesses, which means the energy we need will be less affordable and less secure. Along with this, investment and pension managers who invest based on political trends undermine their fiduciary duty and threaten our workers' and retirees' futures.

S.B. 13 prohibits Texas state agencies that invest funds from investing in financial companies that boycott energy companies. Specifically, it requires the Comptroller of Public Accounts of the State of Texas (comptroller) to prepare and maintain a list of all financial companies that refuse to deal with, terminate business activities with, or otherwise take any action that is, solely or primarily, intended to penalize, inflict economic harm on, or limit commercial relations with a financial company because the company engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law.

This list is then provided to the state agencies that invest funds, who in turn send a letter to the listed companies informing them that they are subject to divestment if they do not stop boycotting energy companies within 90 days. If the company does not stop boycotting energy companies, the state agency is required to sell, redeem, divest, or withdraw all publically traded securities of the company unless the holdings are indirect holdings managed by investment funds or private equity funds.

A state entity can cease divesting from one or more listed companies only if clear and convincing evidence shows that: (1) the state governmental entity has suffered or will suffer a loss in the hypothetical value of all assets under management by the state governmental entity as a result of having to divest from listed companies; or (2) an individual portfolio that uses a benchmark-aware strategy would be subject to an aggregate expected deviation from its benchmark as a result of having to divest from listed companies.

S.B. 13 further states that a governmental entity may not enter into a contract with a company for goods or services unless the contract contains written verification from the company that it does not boycott energy companies and will not boycott energy companies during the term of the contract. This provision only applies to a company with 10 or more full time employee and that has a contract value of \$100,000 or more.

(Original Author's/Sponsor's Statement of Intent)

S.B. 13 amends current law relating to state contracts with and investments in certain companies that boycott energy companies.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Subtitle A, Title 8, Government Code, by adding Chapter 809, as follows:

CHAPTER 809. PROHIBITION ON INVESTMENT IN FINANCIAL COMPANIES THAT  
BOYCOTT CERTAIN ENERGY COMPANIES

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 809.001. DEFINITIONS. Defines "boycott energy company," "company," "direct holdings," "financial company," "indirect holdings," "listed financial company," and "state governmental entity."

Sec. 809.002. OTHER LEGAL OBLIGATIONS. Provides that, with respect to actions taken in compliance with this chapter, including all good faith determinations regarding financial companies as required by this chapter, a state governmental entity and the Comptroller of Public Accounts of the State of Texas (comptroller) are exempt from any conflicting statutory or common law obligations, including any obligations with respect to making investments, divesting from any investment, preparing or maintaining any list of financial companies, or choosing asset managers, investment funds, or investments for the state governmental entity's securities portfolios.

Sec. 809.003. INDEMNIFICATION OF STATE GOVERNMENTAL ENTITIES, EMPLOYEES, AND OTHERS. Requires the state, in a cause of action based on an action, inaction, decision, divestment, investment, financial company communication, report, or other determination made or taken in connection with this chapter, without regard to whether the person performed services for compensation, to indemnify and hold harmless for actual damages, court costs, and attorney's fees adjudged against, and defend:

- (1) an employee, a member of the governing body, or any other officer of a state governmental entity;
- (2) a contractor of a state governmental entity;
- (3) a former employee, a former member of the governing body, or any other former officer of a state governmental entity who was an employee, member of the governing body, or other officer when the act or omission on which the damages are based occurred;
- (4) a former contractor of a state governmental entity who was a contractor when the act or omission on which the damages are based occurred; and
- (5) a state governmental entity.

Sec. 809.004. NO PRIVATE CAUSE OF ACTION. (a) Prohibits a person, including a member, retiree, or beneficiary of a retirement system to which this chapter applies, an association, a research firm, a financial company, or any other person from suing or pursuing a private cause of action against the state, a state governmental entity, a current or former employee, a member of the governing body, or any other officer of a state governmental entity, or a contractor of a state governmental entity, for any claim or cause of action, including breach of fiduciary duty, or for violation of any constitutional, statutory, or regulatory requirement in connection with any action, inaction, decision, divestment, investment, financial company communication, report, or other determination made or taken in connection with this chapter.

- (b) Provides that a person who files suit against the state, a state governmental entity, an employee, a member of the governing body, or any other officer of a state governmental entity, or a contractor of a state governmental entity, is liable for paying the costs and attorney's fees of a person sued in violation of this section.

Sec. 809.005. INAPPLICABILITY OF REQUIREMENTS INCONSISTENT WITH FIDUCIARY RESPONSIBILITIES AND RELATED DUTIES. Provides that a state governmental entity is not subject to a requirement of this chapter if the state governmental entity determines that the requirement would be inconsistent with its fiduciary responsibility with respect to the investment of entity assets or other duties imposed by law relating to the investment of entity assets, including the duty of care established under Section 67 (State and Local Retirement Systems), Article XVI (General Provisions), Texas Constitution.

Sec. 809.006. RELIANCE ON FINANCIAL COMPANY RESPONSE. Authorizes the comptroller and a state governmental entity to rely on a financial company's response to a notice or communication made under this chapter without conducting any further investigation, research, or inquiry.

#### SUBCHAPTER B. DUTIES REGARDING INVESTMENTS

Sec. 809.051. LISTED FINANCIAL COMPANIES. (a) Requires the comptroller to prepare and maintain, and provide to each state governmental entity, a list of all financial companies that boycott energy companies. Authorizes the comptroller, in maintaining the list, to:

(1) review and rely, as appropriate in the comptroller's judgment, on publicly available information regarding financial companies, including information provided by the state, nonprofit organizations, research firms, international organizations, and governmental entities; and

(2) request written verification from a financial company that it does not boycott energy companies and rely, as appropriate in the comptroller's judgment and without conducting further investigation, research, or inquiry, on a financial company's written response to the request.

(b) Provides that a financial company that fails to provide to the comptroller a written verification under Subsection (a)(2) before the 61st date after receiving the request from the comptroller is presumed to be boycotting energy companies.

(c) Requires the comptroller to update the list annually or more often as the comptroller considers necessary, but not more often than quarterly, based on information from, among other sources, those listed in Subsection (a).

(d) Requires the comptroller, not later than the 30th day after the date the list of financial companies that boycott energy companies is first provided or updated, to file the list with the presiding officer of each house of the legislature and the attorney general and post the list on a publicly available Internet website.

Sec. 809.052. IDENTIFICATION OF INVESTMENT IN LISTED FINANCIAL COMPANIES. Requires the state governmental entity, not later than the 30th day after the date a state governmental entity receives the list provided under Section 809.051, to notify the comptroller of the listed financial companies in which the state governmental entity owns direct holdings or indirect holdings.

Sec. 809.053. ACTIONS RELATING TO LISTED FINANCIAL COMPANY. (a) Requires the state governmental entity, for each listed financial company identified under Section 809.052, to send a written notice:

(1) informing the financial company of its status as a listed financial company;

(2) warning the financial company that it may become subject to divestment by state governmental entities after the expiration of the period described by Subsection (b); and

(3) offering the financial company the opportunity to clarify its activities related to companies described by Sections 809.001(1)(A) and (B).

(b) Requires the financial company, not later than the 90th day after the date the financial company receives notice under Subsection (a), to cease boycotting energy companies in order to avoid qualifying for divestment by state governmental entities.

(c) Requires the comptroller, if during the time provided by Subsection (b), the financial company ceases boycotting energy companies, to remove the financial company from the list maintained under Section 809.051 and provides that this chapter will no longer apply to the financial company unless it resumes boycotting energy companies.

(d) Requires the state governmental entity, if after the time provided by Subsection (b) expires, the financial company continues to boycott energy companies, to sell, redeem, divest, or withdraw all publicly traded securities of the financial company, except securities described by Section 809.055, according to the schedule provided by Section 809.054.

Sec. 809.054. DIVESTMENT OF ASSETS. (a) Requires a state governmental entity required to sell, redeem, divest, or withdraw all publicly traded securities of a listed financial company to comply with the following schedule:

(1) requires that at least 50 percent of those assets be removed from the state governmental entity's assets under management not later than the 180th day after the date the financial company receives notice under Section 809.053 or Subsection (b) unless the state governmental entity determines, based on a good faith exercise of its fiduciary discretion and subject to Subdivision (2), that a later date is more prudent; and

(2) requires that 100 percent of those assets be removed from the state governmental entity's assets under management not later than the 360th day after the date the financial company receives notice under Section 809.053 or Subsection (b).

(b) Requires the state governmental entity, if a financial company that ceased boycotting energy companies after receiving notice under Section 809.053 resumes its boycott, to send a written notice to the financial company informing it that the state governmental entity will sell, redeem, divest, or withdraw all publicly traded securities of the financial company according to the schedule in Subsection (a).

(c) Authorizes a state governmental entity, except as provided by Subsection (a), to delay the schedule for divestment under that subsection only to the extent that the state governmental entity determines, in the state governmental entity's good faith judgment, and consistent with the entity's fiduciary duty, that divestment from listed financial companies will likely result in a loss in value or a benchmark deviation described by Section 809.056(a). Requires the governmental entity, if a state governmental entity delays the schedule for divestment, to submit a report to the presiding officer of each house of the legislature and the attorney general stating the reasons and justification for the state governmental entity's delay in divestment from listed financial companies. Requires that the report include documentation supporting its determination that the divestment would result in a loss in value or a benchmark deviation described by Section 809.056(a), including objective numerical estimates. Requires the state governmental entity to update the report every six months.

Sec. 809.055. INVESTMENTS EXEMPTED FROM DIVESTMENT. Provides that a state governmental entity is not required to divest from any indirect holdings in actively or passively managed investment funds or private equity funds. Requires the state governmental entity to submit letters to the managers of each investment fund containing listed financial companies requesting that they remove those financial companies from the fund or create a similar actively or passively managed fund with indirect holdings devoid of listed financial companies. Authorizes the state governmental entity, if a manager creates a similar fund with substantially the same management fees and same level of investment risk and anticipated return, to replace all applicable investments with investments in the similar fund in a time frame consistent with prudent fiduciary standards but not later than the 450th day after the date the fund is created.

Sec. 809.056. AUTHORIZED INVESTMENT IN LISTED FINANCIAL COMPANIES.

(a) Authorizes a state governmental entity to cease divesting from one or more listed financial companies only if clear and convincing evidence shows that:

(1) the state governmental entity has suffered or will suffer a loss in the hypothetical value of all assets under management by the state governmental entity as a result of having to divest from listed financial companies under this chapter; or

(2) an individual portfolio that uses a benchmark-aware strategy would be subject to an aggregate expected deviation from its benchmark as a result of having to divest from listed financial companies under this chapter.

(b) Authorizes a state governmental entity to cease divesting from a listed financial company as provided by this section only to the extent necessary to ensure that the state governmental entity does not suffer a loss in value or deviate from its benchmark as described by Subsection (a).

(c) Requires the state governmental entity, before a state governmental entity is authorized to cease divesting from a listed financial company under this section, to provide a written report to the comptroller, the presiding officer of each house of the legislature, and the attorney general setting forth the reason and justification, supported by clear and convincing evidence, for deciding to cease divestment or to remain invested in a listed financial company.

(d) Requires the state governmental entity to update the report required by Subsection (c) semiannually, as applicable.

(e) Provides that this section does not apply to reinvestment in a financial company that is no longer a listed financial company.

Sec. 809.057. PROHIBITED INVESTMENTS. Prohibits a state governmental entity, except as provided by Section 809.056, from acquiring securities of a listed financial company.

#### SUBCHAPTER C. REPORT; ENFORCEMENT

Sec. 809.101. REPORT. Requires each state governmental entity, not later than January 5 of each year, to file a publicly available report with the presiding officer of each house of the legislature and the attorney general that identifies all securities sold, redeemed, divested, or withdrawn in compliance with Section 809.054, identifies all prohibited investments under Section 809.057, and summarizes any changes made under Section 809.055.

Sec. 809.102. ENFORCEMENT. Authorizes the attorney general to bring any action necessary to enforce this chapter.

SECTION 2. Amends Subtitle F, Title 10, Government Code, by adding Chapter 2274, as follows:

CHAPTER 2274. PROHIBITION ON CONTRACTS WITH COMPANIES BOYCOTTING  
CERTAIN ENERGY COMPANIES

Sec. 2274.001. DEFINITIONS. Defines "boycott energy company," "company," and "governmental entity."

Sec. 2274.002. PROVISION REQUIRED IN CONTRACT. (a) Provides that this section applies only to a contract that is between a governmental entity and a company with 10 or more full-time employees, and that has a value of \$100,000 or more that is to be paid wholly or partly from public funds of the governmental entity.

(b) Prohibits a governmental entity, except as provided by Subsection (c), from entering into a contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott energy companies, and will not boycott energy companies during the term of the contract.

(c) Provides that Subsection (b) does not apply to a governmental entity that determines the requirements of Subsection (b) are inconsistent with the governmental entity's constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds.

SECTION 3. Makes application of Chapter 2274, Government Code, as added by this Act, prospective.

SECTION 4. Effective date: September 1, 2021.