A BILL TO BE ENTITLED

AN ACT

relating to state contracts with and investments in companies that boycott Israel.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subtitle F, Title 10, Government Code, is amended by adding Chapter 2270 to read as follows:

CHAPTER 2270. PROHIBITION ON CONTRACTS WITH COMPANIES BOYCOTTING ISRAEL

Sec. 2270.001. DEFINITIONS. In this chapter:

(1) "Boycott Israel" has the meaning assigned by Section 808.001.

(2) "Company" has the meaning assigned by Section 808.001.

(3) "Governmental entity" has the meaning assigned by Section 2251.001.

Sec. 2270.002. PROVISION REQUIRED IN CONTRACT. A governmental entity may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it:

(1) does not boycott Israel; and

(2) will not boycott Israel during the term of the contract.

SECTION 2. Subtitle A, Title 8, Government Code, is amended by adding Chapter 808 to read as follows:
CHAPTER 808. PROHIBITION ON INVESTMENT IN COMPANIES THAT BOYCOTT ISRAEL

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 808.001. DEFINITIONS. In this chapter:

(1) "Boycott Israel" means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes.

(2) "Company" means a for-profit sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, or limited liability company, including a wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of those entities or business associations that exists to make a profit.

(3) "Direct holdings" means, with respect to a company, all securities of that company held directly by a state governmental entity in an account or fund in which a state governmental entity owns all shares or interests.

(4) "Indirect holdings" means, with respect to a company, all securities of that company held in an account or fund, such as a mutual fund, managed by one or more persons not employed by a state governmental entity, in which the state governmental entity owns shares or interests together with other investors not subject to the provisions of this chapter. The term does not
include money invested under a plan described by Section 401(k) or 457 of the Internal Revenue Code of 1986.

(5) "Listed company" means a company listed by the comptroller under Section 808.051.

(6) "State governmental entity" means:
   (A) the Employees Retirement System of Texas, including a retirement system administered by that system;
   (B) the Teacher Retirement System of Texas;
   (C) the Texas Municipal Retirement System;
   (D) the Texas County and District Retirement System;
   (E) the Texas Emergency Services Retirement System;
   (F) The University of Texas Investment Management Company; and
   (G) the permanent school fund.

Sec. 808.002. OTHER LEGAL OBLIGATIONS. With respect to actions taken in compliance with this chapter, including all good faith determinations regarding companies as required by this chapter, a state governmental entity and the 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 companies, or choosing asset managers, investment funds, or investments for the state governmental entity's securities portfolios.

Sec. 808.003. INDEMNIFICATION OF STATE GOVERNMENTAL ENTITIES, EMPLOYEES, AND OTHERS. In a cause of action based on an
action, inaction, decision, divestment, investment, company
communication, report, or other determination made or taken in
connection with this chapter, the state shall, without regard to
whether the person performed services for compensation, 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. 808.004. NO PRIVATE CAUSE OF ACTION. (a) A person,
including a member, retiree, or beneficiary of a retirement system
to which this chapter applies, an association, a research firm, a
company, or any other person may not sue or pursue 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, company communication, report, or other determination made or taken in connection with this chapter.

(b) 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. 808.005. RELIANCE ON COMPANY RESPONSE. The comptroller and a state governmental entity may rely on a 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. 808.051. LISTED COMPANIES. (a) The comptroller shall prepare and maintain, and provide to each state governmental entity, a list of all companies that boycott Israel. In maintaining the list, the comptroller may review and rely, as appropriate in the comptroller's judgment, on publicly available information regarding companies, including information provided by the state, nonprofit organizations, research firms, international organizations, and governmental entities.

(b) The comptroller shall 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).
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(c) Not later than the 30th day after the date the list of companies that boycott Israel is first provided or updated, the comptroller shall 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 website.

Sec. 808.052. IDENTIFICATION OF INVESTMENT IN LISTED COMPANIES. Not later than the 30th day after the date a state governmental entity receives the list provided under Section 808.051, the state governmental entity shall notify the comptroller of the listed companies in which the state governmental entity owns direct holdings or indirect holdings.

Sec. 808.053. ACTIONS RELATING TO LISTED COMPANY. (a) For each listed company identified under Section 808.052, the state governmental entity shall send a written notice informing the company of its status as a listed company and warning the company that it may become subject to divestment by state governmental entities.

(b) The notice must offer the company the opportunity to clarify its Israel-related activities and must encourage the company, not later than the 90th day after the date the company receives notice under this section, to cease boycotting Israel in order to avoid qualifying for divestment by state governmental entities.

(c) If, during the time provided by Subsection (b), the company ceases boycotting Israel, the comptroller shall remove the company from the list maintained under Section 808.051 and this chapter will no longer apply to the company unless it resumes
boycotting Israel.

(d) If, after the time provided by Subsection (b) expires, the company continues to boycott Israel, the state governmental entity shall sell, redeem, divest, or withdraw all publicly traded securities of the company, except securities described by Section 808.055, according to the schedule provided by Section 808.054.

Sec. 808.054. DIVESTMENT OF ASSETS. (a) A state governmental entity required to sell, redeem, divest, or withdraw all publicly traded securities of a listed company shall comply with the following schedule:

(1) at least 50 percent of those assets must be removed from the state governmental entity's assets under management not later than the 180th day after the date the company receives notice under Section 808.053 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) 100 percent of those assets must be removed from the state governmental entity's assets under management not later than the 360th day after the date the company receives notice under Section 808.053 or Subsection (b).

(b) If a company that ceased boycotting Israel after receiving notice under Section 808.053 resumes its boycott, the state governmental entity shall send a written notice to the company informing it that the state governmental entity will sell, redeem, divest, or withdraw all publicly traded securities of the company according to the schedule in Subsection (a).
(c) Except as provided by Subsection (a), a state governmental entity may 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 companies will likely result in a loss in value or a benchmark deviation described by Section 808.056(a). If a state governmental entity delays the schedule for divestment, the state governmental entity shall 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 companies. The report must include documentation supporting its determination that the divestment would result in a loss in value or a benchmark deviation described by Section 808.056(a), including objective numerical estimates. The state governmental entity shall update the report every six months.

Sec. 808.055. INVESTMENTS EXEMPTED FROM DIVESTMENT. A state governmental entity is not required to divest from any indirect holdings in actively or passively managed investment funds or private equity funds. The state governmental entity shall submit letters to the managers of each investment fund containing listed companies requesting that they remove those companies from the fund or create a similar actively or passively managed fund with indirect holdings devoid of listed companies. If a manager creates a similar fund with substantially the same management fees and same level of investment risk and anticipated return, the state
governmental entity may 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. 808.056. AUTHORIZED INVESTMENT IN LISTED COMPANIES. (a) A state governmental entity may 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 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 companies under this chapter.

(b) A state governmental entity may cease divesting from a listed 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) Before a state governmental entity may cease divesting from a listed company under this section, the state governmental entity must 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 company.

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

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

Sec. 808.057. PROHIBITED INVESTMENTS. Except as provided
by Section 808.056, a state governmental entity may not acquire
securities of a listed company.

SUBCHAPTER C. REPORT; ENFORCEMENT

Sec. 808.101. REPORT. Not later than January 5 of each
year, each state governmental entity shall file a publicly
available report with the presiding officer of each house of the
legislature and the attorney general that:

(1) identifies all securities sold, redeemed,
divested, or withdrawn in compliance with Section 808.054;

(2) identifies all prohibited investments under
Section 808.057; and

(3) summarizes any changes made under Section 808.055.

Sec. 808.102. ENFORCEMENT. The attorney general may bring
any action necessary to enforce this chapter.

SECTION 3. This Act takes effect September 1, 2017.