

BILL ANALYSIS

H.B. 4518
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Trade, Workforce & Economic Development
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The bill author has informed the committee that, in recent years, decentralized technologies, particularly blockchain, have enabled new forms of digital collaboration and governance and that one emerging model is the decentralized unincorporated nonprofit association, which allows online communities to organize as nonprofit entities without a traditional hierarchical structure and make decisions through member participation and digital tools like smart contracts. The bill author has also informed the committee that in 2024, Wyoming became the first state to formally recognize decentralized unincorporated nonprofit associations, providing a legal framework that blends the flexibility of decentralized systems with the protections of nonprofit status. The bill author has further informed the committee that, as blockchain-based organizations grow in scale and impact, Texas has an opportunity to lead in creating modern, innovation-friendly laws while ensuring transparency, accountability, and legal clarity. H.B. 4518 seeks to establish a legal framework for the formation and governance of decentralized unincorporated nonprofit associations by enabling the formation of these associations and the use of distributed ledger or blockchain technology for certain business purposes, ensuring that Texas offers legal clarity and protection for decentralized nonprofit structures and encourages innovation while maintaining safeguards for members and the public.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

H.B. 4518 amends the Business Organizations Code to set out provisions relating to the formation of decentralized unincorporated nonprofit associations and the use of distributed ledger or blockchain technology for certain business purposes. The bill establishes that, except as otherwise provided by the bill, the only provisions of that code that apply to or govern a decentralized unincorporated nonprofit association are the following:

- the bill's provisions and statutory provisions relating to definitions and other general provisions of the Business Organizations Code, the purposes and power of a domestic entity, filings, and mergers, interest exchanges, conversions, and sales of assets; and
- if a decentralized unincorporated nonprofit association designates an agent for service of process, statutory provisions relating to registered agents and registered offices.

The bill establishes that principles of law and equity supplement the bill's provisions unless displaced by a particular provision of the bill. The bill establishes that its provisions may not be interpreted to repeal or modify a statute or rule for an entity that does not elect to be formed as

a decentralized unincorporated nonprofit association. The bill establishes that state law governs any decentralized unincorporated nonprofit association that is formed in Texas. The bill requires such an association's governing principles to identify the jurisdiction in which the association is formed.

H.B. 4518 defines the following terms for purposes of the bill's provisions:

- "decentralized unincorporated nonprofit association" as an unincorporated association that meets the following criteria:
 - consists of at least 100 members joined by mutual consent under an agreement, that may be in writing or inferred from conduct, for a common nonprofit purpose;
 - has elected to be formed under the bill's provisions; and
 - is not formed under any other law governing the association's organization and operation;
- "governing principles" as all agreements and any amendment or restatement of those agreements, including any association agreements, consensus formation algorithms, or enacted governance proposals, that govern the purpose or operation of a decentralized unincorporated nonprofit association and the rights and obligations of the association's members and administrators, whether contained in a record, implied from the association's established practices, or both;
- "established practices" as the practices used by a decentralized unincorporated nonprofit association without material change during the most recent five years of the association's existence or, if the association has existed for less than five years, the association's entire existence; and
- "record" as information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in a perceivable form, including information inscribed on blockchain or distributed ledger technology.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to carry on any business activity in which the association may lawfully engage and apply any profit that results from the business activity toward the association's common nonprofit purpose in accordance with the bill's provisions. The bill prohibits a decentralized unincorporated nonprofit association from paying dividends or distributing any part of the association's income or profit to the association's members or administrators, except as otherwise provided by the bill's provisions. The bill authorizes a decentralized unincorporated nonprofit association to do the following:

- pay reasonable compensation or reimburse reasonable expenses to the association's members, administrators, or persons outside the association for services rendered to or for the benefit of the association, including for the administration and operation of the association, which includes the provision of collateral for the self-insurance of the association, voting, and participation;
- confer benefits on the association's members or administrators in conformity with the association's common nonprofit purpose or purposes;
- repurchase membership interests to the extent authorized by the association's governing principles; and
- make distributions of property to members on winding up and termination to the extent provided by the bill.

The bill establishes that a decentralized unincorporated nonprofit association is a legal entity distinct from the association's members and administrators and has perpetual duration unless the association's governing principles otherwise specify.

H.B. 4518 defines the following terms for purposes of the bill's provisions:

- "member" as a person that, under the governing principles of a decentralized unincorporated nonprofit association, may participate in the development of the policies and activities of the association and the selection of the association's administrators;
- "administrator" as a member authorized by vote of the membership to fulfill administrative or operational tasks; and

- "membership interest" as a member's voting right in a decentralized unincorporated nonprofit association as determined by the association's governing principles.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association, in the name of the association, to acquire, hold, encumber, or transfer an estate or interest in real or personal property. The bill authorizes a decentralized unincorporated nonprofit association to be a beneficiary of a trust or contract, legatee, or devisee. The bill requires a decentralized unincorporated nonprofit association to execute and record a statement of authority to transfer an estate or interest in real property in the name of the association. The bill authorizes an estate or interest in real property in the name of a decentralized unincorporated nonprofit association to be transferred by a person authorized in a statement of authority recorded in the office of the county clerk in which a transfer of the property would be recorded. The bill requires a statement of authority to contain the following:

- the legal description and address in Texas, including the street address, if any, of the real property;
- the name of the decentralized unincorporated nonprofit association;
- the address in Texas, including the street address, if any, of the association, or, if the association does not have an address in Texas, the association's address out of state;
- the name or title of the person authorized to transfer an estate or interest in real property held in the name of the association; and
- the action, procedure, or vote of the association that authorizes the person to transfer the real property of the association and to execute the statement of authority.

H.B. 4518, with respect to a statement of authority, does the following:

- requires the statement of authority to be executed in the same manner as a deed and prohibits the person who executes the statement from being the person named in the statement as authorized to transfer the estate or interest;
- authorizes the county clerk to collect a fee for recording the statement of authority in the amount authorized for recording a transfer of real property;
- requires an amendment, including a cancellation, of a statement of authority to meet the requirements for execution and recording of an original statement;
- establishes that, unless canceled earlier, a recorded statement of authority or the most recent amendment to the statement is canceled by operation of law on the fifth anniversary of the date of the most recent recording; and
- establishes that, if the record title to real property is in the name of a decentralized unincorporated nonprofit association and the statement of authority is recorded in the office of the county clerk in which a transfer of real property would be recorded, the authority of the person named in a statement of authority is conclusive in favor of a transferee who gives value without notice that the person named in the statement of authority lacks authority.

H.B. 4518 establishes that, except as otherwise provided by the bill, the debts, obligations, and liabilities of a decentralized unincorporated nonprofit association, whether arising in contract, tort, or otherwise, are solely the debts, obligations, and liabilities of the association. The bill prohibits a member or administrator of such an association from being obligated personally for any debt, obligation, or liability of the association solely by reason of being a member or acting as an administrator of the association. However, a member or administrator of a decentralized unincorporated nonprofit association may, under the governing principles of the association or under another agreement, agree to be obligated personally for any or all of the debts, obligations, and liabilities of the association. The bill prohibits the failure of a decentralized unincorporated nonprofit association to observe formalities relating to the exercise of the association's powers or administration of the association's activities and affairs from being considered a ground for imposing liability on a member or administrator of the association for a debt, obligation, or other liability of the association.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association, in the association's name, to institute, defend, intervene, or participate in a judicial, administrative, or other governmental proceeding or in an arbitration, mediation, or any other form of alternative dispute resolution. The bill authorizes a member or administrator to assert a claim the member or administrator has against the association and authorizes an association to assert a claim the association has against a member or administrator. The bill establishes that a judgment or order against a decentralized unincorporated nonprofit association is not by itself a judgment or order against a member or administrator of the association.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to file in the office of the secretary of state a statement appointing an agent authorized to receive service of process. The bill requires a statement appointing an agent to contain the following:

- the name of the decentralized unincorporated nonprofit association;
- if applicable, the employer identification number of the association;
- the address in Texas, including the street address, if any, of the association, or, if the association does not have an address in Texas, the association's address out of state; and
- the name of the person in Texas authorized to receive service of process and the person's address, including the street address, in Texas.

H.B. 4518 requires a statement appointing an agent to be signed and acknowledged by a person authorized to manage the affairs of the decentralized unincorporated nonprofit association and to also be signed and acknowledged by the person appointed agent, who by signing accepts the appointment. The bill does the following with respect to the appointment of an agent:

- authorizes the appointed agent to resign by filing a resignation in the office of the secretary of state and giving notice to the association;
- authorizes the secretary of state to collect a fee for filing a statement appointing an agent to receive service of process, an amendment, or such a resignation;
- requires an amendment to a statement appointing an agent to receive service of process to meet the requirements for execution of an original statement; and
- if the secretary of state refuses to file a statement appointing an agent, requires the secretary of state to return it to the association or the association's representative not later than the 30th day after the date the statement was delivered and include a brief explanation in writing of the reason for the refusal.

H.B. 4518 requires a summons and complaint or other process, in an action or proceeding against a decentralized unincorporated nonprofit association, to be served on the following:

- an agent authorized by appointment to receive service of process;
- an appointed administrator of the association; or
- a member, but only if the applicable agent or administrator cannot be served.

H.B. 4518 establishes the following:

- a claim for relief against a decentralized unincorporated nonprofit association does not abate merely because of a change in the members or administrators of the association;
- unless provided otherwise by other law, venue of an action against a decentralized unincorporated nonprofit association brought in Texas is determined in accordance with the law applicable to an action brought in the county in which the association has appointed an agent for service of process under the bill's provisions; and
- a member of a decentralized unincorporated nonprofit association is not an agent of the association solely by reason of being a member.

H.B. 4518 requires a decentralized unincorporated nonprofit association, except as otherwise provided by the association's governing principles, to have the approval of the association's members, attained in accordance with its governing principles, to do any of the following:

- suspend, dismiss, or expel a member;
- select or dismiss an administrator;

- adopt, amend, or repeal the governing principles;
- sell, lease, exchange, or otherwise dispose of all, or substantially all, of the association's property outside the ordinary course of the association's activities, regardless of the association's goodwill;
- dissolve the association;
- merge or convert the association;
- undertake any act outside the ordinary course of the association's activities; or
- determine the policy or purpose of the association.

The bill requires an association to have the approval of the members in accordance with its governing principles to act or exercise a right for which the association's governing principles require member approval. Unless otherwise provided for in a decentralized unincorporated nonprofit association's governing principles, membership interest in such an association is calculated in proportion to the person's membership interest or other property that confers onto the person a voting right in the association.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to provide for the association's governance, wholly or partly, through distributed ledger technology, including through a smart contract. The bill authorizes the governing principles for such an association to do the following:

- specify whether any distributed ledger technology used or enabled by the association is immutable or subject to change by the association and fully or partially public or private, including the extent of members' access to information; and
- adopt voting procedures, which may include a smart contract deployed to distributed ledger technology, that provides for the following:
 - proposals from members or administrators in the association for upgrades, modifications, or additions to software systems or protocols;
 - proposed changes to the association's governing principles; and
 - any other matter of governance or relating to the activities of the association that is within the purpose of the association.

H.B. 4518 defines the following terms for purposes of the bill's provisions:

- "distributed ledger technology" as a software protocol that satisfies the following criteria:
 - governs the rules, operations, and communication between intersection and connection points in a telecommunications network and supporting infrastructure;
 - includes the computer software or hardware or collections of computer software or hardware that use or enable a distributed ledger, including blockchain; and
 - uses a distributed, shared, and replicated ledger, which may be public or private, be permissioned or permissionless, and include the use of a digital asset as a medium of electronic exchange; and
- "smart contract" as a computational process that executes on distributed ledger technology used to automate a transaction, including a transaction that does any of the following:
 - takes custody over and instructs transfer of assets on that ledger;
 - creates and transmits digital assets;
 - synchronizes information; or
 - authenticates user rights and conveys access to software applications.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association, in accordance with the association's governing principles, to do the following:

- adopt a reasonable algorithmic means for establishing consensus for the following:
 - the validation of records;
 - the establishment of requirements, processes, and procedures for conducting operations; and

- making organizational decisions with respect to the distributed ledger technology used by the association; and
- in accordance with a voting procedure adopted by the association under the bill's provisions relating to the use of distributed ledger technology, if any, and in compliance with the requirements of law and the governing principles of the association, do the following:
 - modify the consensus mechanism, including the requirements, processes, and procedures for that mechanism; or
 - substitute a new consensus mechanism, including the requirements, processes, or procedures for that mechanism.

H.B. 4518 establishes that a member of a decentralized unincorporated nonprofit association does not owe a fiduciary duty to the association or to any another member of the association solely by virtue of the person's membership in the association. The bill requires a member of such an association to discharge the duties and obligations under the bill's provisions or under the governing principles of the association and exercise the member's rights in a manner consistent with the contractual obligation of good faith and fair dealing.

H.B. 4518, with respect to the admission, suspension, dismissal, or expulsion of a member, establishes the following:

- a person becomes a member of a decentralized unincorporated nonprofit association in accordance with the governing principles of the association;
- if there are no applicable governing principles, a person is considered a member on the purchase or assumption of a right of ownership of a membership interest or other property or instrument that confers on the person a voting right in the association, and continues as a member of the association until the earlier of the member's resignation or suspension, dismissal, or expulsion;
- a member may be suspended, dismissed, or expelled in accordance with the governing principles of the association;
- if there are no applicable governing principles, the member may be suspended, dismissed, or expelled from an association only by a majority vote of the association's members; and
- unless the governing principles of a decentralized unincorporated nonprofit association provide otherwise, the suspension, dismissal, or expulsion of a member does not relieve the member from any obligation incurred or commitment made by the member in connection with membership in the association before the member's suspension, dismissal, or expulsion.

H.B. 4518 authorizes a member to resign as a member of a decentralized unincorporated nonprofit association in accordance with the governing principles of the association. In the absence of applicable governing principles, a member is considered to have resigned on the voluntary or involuntary disposal of all membership interest or other property or instruments that confer on the person a voting right in the association. The bill establishes that, unless an association's governing principles provide otherwise, resignation of a member does not relieve the member of any obligation incurred or commitment made by the member before the member's resignation.

H.B. 4518 establishes that, except as otherwise provided in a decentralized unincorporated nonprofit association's governing principles, a member's interest or a right conferred in the association is freely transferable to another person through conveyance of the membership interest or other property that confers on a person a voting right in the association.

H.B. 4518, with respect to the selection of administrators and the rights and duties of administrators, does the following:

- authorizes the members of a decentralized unincorporated nonprofit association, except as otherwise provided by the bill's provisions or the association's governing principles,

to select the association's administrators in accordance with the bill's provisions relating to approval by members;

- establishes that, if no administrators are selected, no member of the decentralized unincorporated nonprofit association is an administrator;
- establishes that an association is not required to have an administrator and that there are no default obligations of an administrator of a decentralized unincorporated nonprofit association;
- requires the rights and duties of such an administrator to be established as part of the selection process for an administrator or administrators of the association; and
- establishes that an administrator does not have the authority to act on behalf of the association beyond the specific authority granted in the selection process of the administrator.

H.B. 4518 authorizes the governing principles of a decentralized unincorporated nonprofit association, in a record, to limit or eliminate the liability of an administrator to the association or the association's members for money damages for an action taken, or for failure to take an action, as an administrator, except liability for the following:

- the amount of a financial benefit improperly received by an administrator;
- an intentional infliction of harm on the association or the association's members;
- an intentional violation of criminal law;
- a breach of the duty of loyalty should one exist, unless a full disclosure of all material facts, a specific act, or a transaction that would otherwise violate the duty of loyalty by an agent is authorized or ratified by approval of the disinterested members in accordance with the bill's provisions; or
- an improper distribution.

H.B. 4518 entitles a member or administrator of a decentralized unincorporated nonprofit association, on reasonable notice, to an electronic record of any record maintained by the association regarding the association's activities, financial condition, or other circumstances to the extent the information contained in the record is material to the member's or administrator's rights and duties under the association's governing principles or the bill's provisions. However, a decentralized unincorporated nonprofit association is not obligated to provide a record maintained by the association for record requests made through distributed ledger technology, including through a smart contract, to a member or administrator if the member or administrator has access to the information contained in the record in a record made available to the member or administrator on distributed ledger technology.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to impose reasonable restrictions on access to and use of information that may be provided under the bill's provisions relating to records, including by designating the information confidential and imposing nondisclosure or other safeguarding obligations on the recipient of the information. The bill authorizes a former member or administrator to have access to information to which the member or administrator was entitled as a member or administrator if the following conditions are met:

- the information relates to the period of time during which the person was a member or administrator;
- the former member or administrator seeks the information in good faith; and
- the former member or administrator satisfies the applicable requirements of the bill's provisions relating to records with respect to the information.

H.B. 4518 subjects a decentralized unincorporated nonprofit association to statutory provisions relating to the following:

- the authority of the attorney general to examine entity records;
- a request by the attorney general to examine the business of an entity;
- the authority of the attorney general to examine the management of an entity with respect to violations of the entity's governing documents or state law; and

- the authority of the attorney general to disclose certain information.

The bill establishes that a decentralized unincorporated nonprofit association has no obligation to collect and maintain a list of members or member information, including the names or addresses of members.

H.B. 4518 establishes that a decentralized unincorporated nonprofit association is an enterprise, defined by reference to statutory provisions relating to indemnification and insurance, for purposes of the requirements related to indemnification and advancement of expenses under those provisions.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to be dissolved by any of the following methods:

- at a time or by a method for dissolution specified by the governing principles of the association, if any;
- if the governing principles of the association do not provide a method for dissolution, with the approval of the members of the association in accordance with the bill's provisions;
- if the number of members of the association is fewer than 100 and the association is not able to use a merger or conversion to form another valid entity under statutory provisions relating to mergers, interest exchanges, conversions, and sales of assets; or
- by court order to dissolve.

After dissolution, a decentralized unincorporated nonprofit association continues in existence until the association's activities are wound up and the association is terminated under the bill's provisions.

H.B. 4518 requires a dissolved decentralized unincorporated nonprofit association to wind up the association's business. The bill establishes that the association continues in existence after dissolution only for the purpose of winding up under these provisions. The bill does the following with respect to winding up a decentralized unincorporated nonprofit association:

- requires the members to discharge the association's debts, obligations, and other liabilities, settle and close the association's business, and marshal and distribute any remaining property as follows:
 - in a manner required by law, other than the bill's provisions, that requires assets of an association to be distributed to another entity or person with similar nonprofit purposes, if applicable to the association;
 - in accordance with the association's governing principles, and in the absence of applicable governing principles, to the current members of the association in proportion to their membership interests; or
 - if property cannot be distributed in either such manner, under the laws governing unclaimed property for Texas; and
- authorizes the members to do the following:
 - appoint and authorize an administrator to wind up the association in accordance with the bill's provisions relating to the use of distributed ledger technology;
 - preserve the association operations and property as a going concern for a reasonable time;
 - prosecute and defend civil, criminal, or administrative actions and proceedings involving the association;
 - transfer the association's property;
 - settle disputes involving the association by mediation or arbitration;
 - receive reasonable compensation for services rendered to the association in winding up the association; and
 - perform other acts necessary or appropriate to effect the winding up.

The bill requires the members of a decentralized unincorporated nonprofit association, if the members do not appoint an administrator to wind up the association's business, to owe the association a duty of care in the conduct or winding up of the association operations to refrain

from engaging in grossly negligent or reckless conduct, wilful or intentional misconduct, or a knowing violation of the law.

H.B. 4518 authorizes a decentralized unincorporated nonprofit association to effect a merger or conversion by complying with applicable statutory provisions relating to mergers, interest exchanges, conversions, and sales of assets and the association's governing principles.

EFFECTIVE DATE

September 1, 2025.