Bond Case Briefs

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Texas Fought Against ESG. Here's What It Cost.

When states boycott financial institutions over their ESG policies, it can have a chilling and costly effect on competition in the bond market, according to a new paper from Wharton's Daniel Garrett.

Texas law that bans its municipalities from doing business with banks that have ESG policies against fossil fuels and firearms is driving down competition for borrowing and costing taxpayers millions in extra interest, according to a new study from Wharton.

In their paper, Wharton assistant finance professor Daniel Garrett and Ivan Ivanov, an economist with the Board of Governors of the Federal Reserve System, documented the financial impact of Senate Bills 13 and 19, which took effect Sept. 1, 2021. The legislation is aimed at protecting Texas' reliance on the oil and gas and firearms industries by prohibiting local jurisdictions from contracting with banks that have adopted environmental, social, and corporate governance policies against those industries. That means cities can no longer use those banks as underwriters for municipal bonds, which are one of the main ways that cities raise money.

After Texas passed the law, five of the largest underwriters exited the market: JPMorgan Chase, Goldman Sachs, Citigroup, Bank of America, and Fidelity.

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Knowledge at Wharton

by Angie Basiouny

July 12, 2022