

Legislative Update: Conflicts of Interests and HB 1295



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What will we discuss

- Changes to Texas law conflicts of interest rules and disclosure requirements
 - Income from vendors
 - Family relationships with vendors
 - Gifts from vendors
- Changes to federal law conflicts of interest rules
- Disclosure of Interested Parties (Form 1295)

Conflicts of Interest: Tex. Loc. Gov't Code Chapter 176

- Requires local government officers (LGOs) and vendors to disclose income, family relationships and gifts
 - Form CIS (Conflict of Interest Statement) for LGO; must be notarized
 - Form CIQ (Conflict of Interest Questionnaire) for Vendor
 - District must post the LGO's CIS forms on District website
- HB 23 significantly changed definitions
- Effective 9/1/15



Who is a Local Government Officer?

- Board trustee
- Superintendent or other person designated as an executive officer of a district
- *Employees or agents who exercise discretion in the planning, recommending, selecting, or contracting of a vendor*



When is Disclosure Required?



- **When Vendor:**
 - Has entered into a contract with the district or the district is considering entering into a contract with the vendor;
 - AND
 - Provides certain income or gifts to the LGO or first degree relatives of the LGO
 - OR
 - Become aware of a family relationship that exists between the LGO and the vendor's employees or agents

Required Disclosures: Income

- From a vendor to LGO or LGO's *family member* (1st degree)
- In excess of \$2500
- In the 12-month period preceding the date the LGO becomes aware:
 - of a contract being executed
 - the LGO's consideration of a contract between the District and the vendor



Required Disclosures: Income

Family Member Defined

- Family Member: Person related to another within the first degree by consanguinity (blood) or affinity (marriage)
- First degree by consanguinity: Parents; children
- First degree by affinity: Spouse; spouse of first degree relative by blood (parents/children's spouses); first degree blood relatives of spouse (parents/children of your spouse)



- **NOTE:** Family Member is different from Family Relationship in Chapter 176

Required Disclosures: Gifts

- From a vendor to an LGO or LGO's family member
- Aggregate value of more than *\$100*
- In 12-month period preceding the date the LGO becomes aware of a contract or entering into a contract between District and vendor

- *Amount changed by HB 23*



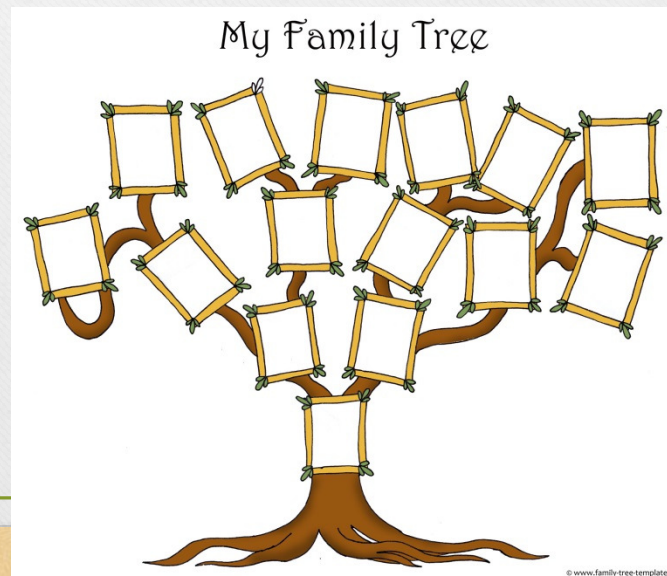
Exceptions to Gift Disclosure

- Gifts do not need to be disclosed if:
 - Offered on account of kinship or a personal, professional, or business relationship independent of the officer's official status;
 - Political contribution; or
 - Food accepted by LGO or family member as guest
- *NOTE: HB 23 – Lodging, transportation, and entertainment are **NO LONGER** exceptions to gift disclosure requirement*



Required Disclosures: Family Relationship

- Existence of family relationship
- Vendor or vendor's employees or agents have relationship with LGO regardless of any monetary amount



Family Relationship Defined

- **Family Relationship:** Person related to another person within the third degree of consanguinity (blood) or the second degree by affinity (marriage)
 - Spouse
 - Parents and children (by blood or marriage/in-law)
 - Siblings (by blood or by marriage/in-law)
 - Grandparents and grandchildren (by blood or marriage/in-law)
 - Aunts, uncles, nieces, nephews
 - Great-grandparents and great-grandchildren

Deadlines for Disclosure

- LGO: by 5:00 PM on 7th business day after LGO becomes aware of an interest to disclose
- Vendor: Not later than 7th day after vendor:
 - begins discussions or negotiations to enter into a contract with District; or
 - submits a response to a request for bids, proposals or qualifications



Penalties for Failing to Disclose Conflicts of Interest

- Criminal Offense: LGO or vendor knowingly fails to timely file or update CIS/CIQ
 - Misdemeanor— Degree of offense depends on amount of contract
- LGO: Disciplinary actions including termination
- Vendor: Termination of contract



Federal Law

- Federal law conflict of interest rules are much more strict.
- While state law generally only requires disclosure, federal law prohibits certain acts.
- Federal law applies when the District uses federal funds to pay the vendor.
- State disclosure rules still apply even if federal funds are used.

EDGAR

(Education Department General Administrative Regulations)

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- 2 CFR § 200.318(c)(1) – The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts. No employee, officer, or agent **may participate in the selection, award, or administration of a contract** supported by a Federal award if **he or she has a real or apparent conflict of interest**. Such a conflict of interest would arise when the employee, officer, or agent, any member of his/her immediate family, his/her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a **financial or other interest in or a tangible personal benefit** from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity may **neither solicit nor accept gratuities, favors, or anything of monetary value** from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity.

Checklist

CIS/ CIQ Disclosures

- Who are the LGOs for this purchase?
- Who is the vendor?
- Are federal funds being used?
- Did an LGO or a family member receive more than \$2500 from vendor in 12 preceding months?
- Did an LGO receive a gift of over \$100 from vendor?
- Does an LGO have a family relationship with vendor/vendor's employees?
- *These duties are continuing and not just at the time of procurement of the goods or services.*

Disclosure of Interested Parties Form 1295

- Texas Gov't Code § 2252.908
- Texas Ethics Commission Rules Chapter 46
- Applies to contracts entered into on or after January 1, 2016
- Applies to sole proprietorships, partnerships and corporations



HB 1295

- If Section 2252.908 applies, the governmental entity cannot enter into the contract until the business entity submits a Disclosure of Interested Parties (Form 1295) at the time the business entity submits the signed contract to the governmental entity.

Contracts Subject to HB 1295

- Contracts that require action or vote by Board before they may be signed; OR
- Contracts that have a value of at least \$1 million
- Does not apply to Interlocal Contracts, but will apply to purchase from cooperative vendor if purchase must be approved by the Board
- Applies to an original contract, and any amendment, extension or renewal
- Not limited to vendor contracts (i.e., applies to real estate contracts, settlement agreements, etc.)

Exceptions to HB 1295

- A contract is exempt from HB 1295 if:
 - (1) The governing body has legal authority to delegate to its staff the authority to execute the contract;
 - (2) The governing body **has** delegated to its staff the authority to execute the contract; and
 - (3) The governing body **does not** participate in the selection of the business entity with which the contract is entered into.

“Interested Party”

- A person who has a controlling interest in a business entity with whom a governmental entity or state agency contracts; or
- A person who actively participates in facilitating the contract or negotiating the terms of the contract, including a **broker, intermediary, adviser, or attorney** for the business entity

“Controlling Interest”

- An ownership interest or participating interest in a business entity by virtue of units, percentage, shares, stock, or otherwise that exceeds 10 percent;
- Membership on the board of directors or other governing body of a business entity of which the board or other governing body is composed of not more than 10 members;
- Service as an officer of a business entity that has four or fewer officers; or
- Service as one of the four officers most highly compensated by a business entity that has more than four officers.

HB 1295 Process

- District may not enter into contract until business entity submits Form 1295
- Business Entity must log into Texas Ethics Commission website, complete Form 1295, print, sign and notarize Form 1295
- Business Entity must submit the original Form 1295 to District (with signed contract or proposal response)
- District must electronically verify receipt of selected vendor's Form 1295 to Texas Ethics Commission not later than the 30th day after the date the parties are bound to the contract
- Texas Ethics Commission will post the form on its website

CERTIFICATE OF INTERESTED PARTIES		FORM 1295	
Complete Nos. 1 - 4 and 6 if there are interested parties. Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.		OFFICE USE ONLY	
1 Name of business entity filing form, and the city, state and country of the business entity's place of business.			
2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.			
3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the goods or services to be provided under the contract.			
4		Nature of Interest (check applicable)	
Name of Interested Party	City, State, Country (place of business)	Controlling	Intermediary
5 Check only if there is NO Interested Party. <input type="checkbox"/>			
6 AFFIDAVIT I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.			
_____ Signature of authorized agent of contracting business entity			
AFFIX NOTARY STAMP / SEAL ABOVE			
Sworn to and subscribed before me, by the said _____, this the _____ day of _____, 20____, to certify which, witness my hand and seal of office.			
_____ Signature of officer administering oath Printed name of officer administering oath Title of officer administering oath			
ADD ADDITIONAL PAGES AS NECESSARY			



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