



State of Maine Senate Chamber Augusta, Maine 04333

January 18, 1980

The Honorable Richard H. Pierce, Chairman Legislative Council State House Augusta, Maine 04333

Dear Chairman Pierce:

We enclose the final report of the Joint Select Committee on Government Ethics of the 109th Legislature on its study of the conflict of interest statutes.

Very truly yours,

Samuel Collins

Senate Chairman

Judy C. Kany House Chairman

A STUDY OF THE

CONFLICT OF INTEREST

STATUTES

FINAL REPORT

OF THE

JOINT SELECT COMMITTEE

ON

GOVERNMENT ETHICS

January 18, 1980

REPORT OF THE SELECT COMMITTEE ON GOVERNMENT ETHICS

INTRODUCTION

Study Order H.P. 1437 of the First Regular Session of the 109th Legislature ordered the formation of a Joint Select Committee to study the statutes governing conflicts of interest for state employees. The Committee members were appointed in July, 1979 as follows:

JOINT SELECT COMMITTEE ON GOVERNMENT ETHICS

Senator Samuel Collins Senate Chairman Representative Judy Kany House Chairman

Senator David Ault

Representative Stephen Hughes Representative James Silsby Representative Sylvia Lund The Committee was ordered to study the present statues and a bill, L.D. 1223, "AN ACT to Clarify Executive Conflict of Interest." The Committee met several times during the Fall of 1979 to carry out the study. While considering the scope and problems of the statutes governing employee conflicts, it also considered proposals by members and representatives of citizen groups to amend the statutes. The Committee decided to offer legislation to amend the statutes which is attached to this report.

REPORT

Maine common law and statutes have several provisions that govern the actions of public employees in relation to possible conflicts-of-interest. Chapter 25 of Title 17-A, the Maine Criminal Code, prohibits a broad range of corrupt practices including: bribery in official and political matters; improper influence; imporper compensation for past action; improper gifts to public servants; improper compensation for services; purchase of public office; official oppression and misuse of information. (See 17-A MRSA §§601-609). In addition, Title 17 prohibits certain state employees from holding an interest in contracts for supplies, etc. to the State. (17 MRSA §3104). These criminal statutes provide a strong foundation for regulating the conduct of public employees.

Maine also has several court decisions that have accepted broad common-law principles that govern employee conduct. These cases recognize that a public employee is in a position of trust and responsibility, and thus owes a special duty of fidelity to the public. This duty not only requires that the employee avoid unethical private gain or advantage from his official position; but also, that he avoid the appearance of having that gain or advantage. (See Lesieur v. Inhabitants of Rumford 113 Me. 317 (1917) and Tuscan v. Smith 130 Me. 36 (1936).) These common law doctrines have been recently reaffirmed in an Opinion of the Justices. (330 A.2d 912 (1957)).

For many years, these common law principles and basic criminal statutes were sufficient safeguards for the public trust. However, in 1975, specific statutory provisions were enacted to more specifically govern the activities of state employees and persons in some way related to them. (See 5 MRSA §15). In the last several years, this statute has been the subject of some controversy and confusion, (See Attorney General Opinions of December 5, 1975 and December 20, 1978 and Opinion of the Justices, 394 A2d 1168 (Me. 1979). After reviewing the statute the Committee agreed that it needed a thorough revision to properly reflect the problems confronting present employees and to preserve the public's trust in the high reputation of the state's employees.

The Committee's review of the present statute revealed that although the statute places restrictions on former state employees in their post-employment activities, and on the "former partners" of present employees; it places no restrictions on the activities of present employees. Though the Criminal Code provisions limit present employees' activities by generally prohibiting private pecuniary gain from public service; there are no statutory prohibitions on appearing to have a special private advantage from public service.

The Committee agreed to propose legislation to require employees to avoid the appearance of conflict of interest. The basic principle of the appearance of conflict is that an employee should not take official action in a situation where he or his relatives may have personal economic interests. A simple prohibition is sufficient to prevent the most serious situations from arising, and does not unduly intrude on the personal activities of state employees. To complement this prohibition, the Committee also recommends legislation to require financial disclosure by the state's major policy-making employees. This will provide the public with the information it requires to judge the performance of these employees. In balancing the interest of the public and the privacy rights of employees, the Committee looked to the requirements for financial disclosure by Legislators. The information provided by Legislators seemed adequate to inform the public without being unduly intrusive into the private affairs of employees. The Committee also decided that while the conflicts statute applied to all full-time compensated state employees, the financial disclosure requirement should only apply to employees who had a major policy-making role. As both an affirmative reporting requirement and an intrusion into private matters, it was only warranted to insure the higher fidelity demanded of those who make the basic policy decisions of state government.

Finally, the Committee decided that the statute provisions relating to former partners of state employees were unwarranted and should be repealed. The suggested additions to the conflicts statute seemed adequate to protect the public's interest without continuing the vicarious responsibility of former part-The restrictions of the present statute allow an employee ners. to restrict the actions of a third party without a concommittant gain to the public. In certain instances these restrictions could have a seriously detrimental effect on the livelihood of innocent people. If there was any justification for this provision in attempting to prevent the appearance of conflicts, that justification disappears with the enactment of restrictions on the actions of present employees. The restrictions the Committee has recommended on present employees place the burden on those responsible and more than adequately protect the public's interest in an honest and responsible civil service.

In addition to these basic changes in the conflict of interest statute; the Committee has also made numerous changes in the statutory language to avoid the confusion and misunderstanding that has surrounded the present statute. The definitions are clearer and more specific, and the prohibitions are reorganized for clarity. The provisions on financial disclosure parallel the provisions on Legislative disclosure, which have been used and understood for several years. The draft legislation has specifically resolved questions and issues that have arisen over the last several years and has sought to express a simple straight-forward statement of the Committee's principles.

The Committee also considered the issues of judicial and legislative disclosure. Presently there is no requirement for financial disclosure by justices and judges, though there is an informal tradition of requesting basic information on possible financial conflicts during confirmation hearings before the Judiciary Committee. It seemed appropriate to formalize this tradition by establishing a financial disclosure reporting system for justices and judges. The justices and judges of this state have as significant role as executive branch mayor policy-makers in establishing public policy. The same public interest that requires disclosure for the executive branch requires it for the judicial branch. However, the general financial position of justices and judges does appear to differ from that of executive branch employees. Except for Probate Court Judges, the justices and judges are appointed for a term of years and usually have little or no other sources Thus, the Committee believes that it is unnecessary of income. to have annual reporting. It will be sufficient for justices and judges to file an initial report, and then file only when there is a substantial change in their finances. Otherwise, the proposed judicial financial disclosure bill follows the proposed bill for executive branch employees.

In addition, the Committee also reviewed the present disclosure requirements for Legislators. That statute, 1 MRSA \$1016, only requires disclosure of "sources of income." The Committee believes that this is inadequate and should be expanded to include property and future interests. When the Committee considered the scope of financial disclosure for executive branch employees, it reviewed the Legislator's disclosure provisions. It felt that only disclosing "sources of income" was insufficient to accomplish the goal of allowing public scrutiny to avoid appearances of conflicts and to insure the high fidelity of public service. As possible appearances of conflicts can also result from property owned by the employee or from rights to income or property in the future, the Committee added these to the disclosure requirements. The same reasoning argues for adding them to the Legislative disclosure requirements. Thus the Committee recommends that the Legislative disclosure statute also be amended to include reporting of property and future rights.

The Committee believes that the enactment of its proposed legislation on conflict of interest will resolve much of the confusion and controversy on this subject over the last several years. It believes that the recommended legislation balances the public's legitimate concern over the fidelity of its employees with its employees' interests in privacy and freedom to act. Public scrutiny combined with strong but narrow prohibitions seem appropriate to guide a public work force that has generally been beyond reproach. Extensive and detailed restrictions can only hurt the high quality of public service in the state. Isolated incidences have shown the need for certain

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narrow restrictions, but the general welfare would only be hurt by detailed and extensive restrictions on the actions of state employees. The Committee believes that its proposed statute fairly balances these factors to ensure the continued integrity of state service.

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AN ACT to Clarify the Provisions Relating to Executive Conflict of Interest and to Establish Financial Disclosure Requirements for Policy-making Executive Employees.

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 5 MRSA §15 is repealed.

Sec. 2. 5 MRSA §18 is enacted.

\$18. Disqualification of executive employees from participation
in certain matters

1. Definitions. As used in this section, unless the context indicates otherwise, the following terms have the following meanings:

A. "Executive employee" means the Attorney General, Secretary of State, Treasurer of State, State Auditor and compensated members of the classified or unclassified service employed by the Executive Branch, but it shall not include:

(1) the Governor;

(2) employees of and members serving with theNational Guard;

(3) employees of the University of Maine; the MaineMaritime Academy, and State Vocational-TechnicalInstitutes; and

(4) employees who are employees solely by their appointment to an advisory body.

B. "Participate in his official capacity" means to take part in reaching a decision or recommendation in a proceeding that is within the authority of the position he holds.

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C. "Proceeding" means a proceeding, application, request, ruling, determination, award, contract, claim, controversy, charge, accusation, arrest or other matter relating to governmental action or inaction.

2. Executive employee. An executive employee commits a civil violation if he personally and substantially participates in his official capacity, in any proceeding in which, to his knowledge, any of the following have a direct and substantial financial interest:

A. himself, his spouse or his dependent children;

B. his partners;

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C. a person or organization with whom he is negotiating or has agreed to an arrangement concerning prospective employment; or

D. an organization in which he has a direct and substantial financial interest.

3. Former executive employee. A former executive employee commits a civil violation if he, within one year after his employment has ceased, either knowingly acts as an agent or attorney for, or appears personally before a state or quasistate agency for anyone other than the state in connection with a proceeding in which:

A. the State is a party or has a direct and substantial interest; and

B. the particular matter at issue was pending before his agency and was directly within his official responsibilities as an executive employee at any time within one year prior to the termination of his employment.

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4. Construction of section. This section shall not be construed to prohibit former state employees from doing personal business with the State.

5. Penalty. A violation of this section shall be a civil violation for which a forfeiture of not more than \$1,000 may be adjudged.

Sec. 3. 5 MRSA §19 is enacted.

§19. Financial disclosure by executive employees

1. Definitions. As used in this section, unless the context indicates otherwise, the following terms have the following meanings:

A. "Appointed executive employee" means a compensated member of the classified or unclassified service employed by the Executive Branch, who is appointed by the Governor and confirmed by the Legislature.

B. "Elected executive employee" means the Attorney General, Secretary of State, Treasurer of State and State Auditor.

C. "Executive employee" means an appointed executive employee or an elected executive employee.

D. "Future interests" means a legally enforceable right to income or property in the future, including: contracts or agreements for future employment or income; vested pension or retirement benefits; or distributive shares of a former partnership or business association. E. "Income" means economic gain from any source, including: compensation for services, including fees, commissions and payments in kind; income derived from

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business; gains derived from property transactions, rents or royalties; income from investments, including interest, capital gains and dividends; alimony or separate maintenance payments; annuities; income from life insurance or endowment contracts; pensions; discharges of indebtedness; distributive share of partnership income; income from an interest in an estate or trust; and prizes, awards, grants or gifts.

F. "Property" means both real estate and personal property.

2. Statement of finances. Each executive employee shall annually file with the Secretary of State, a sworn and notarized statement of finances for the preceeding calendar year and an estimate for the next year. The statement shall indicate the category or type of:

A. the entity or economic activity that is the source of income to him, his spouse or dependent children that exceeds \$300 during the year;

B. property owned by him, his spouse or dependent children that exceeds \$5,000 in fair market value during the year;

C. future rights that he, his spouse or dependent children will be entitled to and that will exceed \$300 in income or \$5,000 in fair market value in any future year; and D. If he is an attorney, the major areas of practice, and if associated with a law firm, the major areas of the firm's practice.

3. Time for filing.

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A. An elected executive employee shall file an initial report within 30 days of his election. An appointed executive employee shall file an initial report prior to confirmation by the Legislature.

B. Each executive employee shall file the annual report prior to the close of the 2nd week in April, unless he has filed an initial or updating report during the preceding 30 days.

C. Each executive employee whose income or property substantially change shall file a report of that change within 30 days of it.

4. Penalties. Failing to file the statement within 15 days of having been notified by the Secretary of State of failing to meet the requirements of subsection 2 shall be a civil violation for which a forfeiture of not more than \$100 may be adjudged.

5. Rules. The Secretary of State may adopt or amend rules to specify the reportable categories or types, the methods of valuation, the procedures and forms for reporting and to administer this section.

6. Public record. Statements filed under this section shall be public records.

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Sec. 4. 5 MRSA §307 is amended to read:

§307. Interest in contracts prohibited

In addition to the limitations of section 18, no Ne employee of the Department of Finance and Administration or member of the commission shall be interested directly or indirectly in any contract or contracts calling for the construction or improvements of facilities, buildings and grounds in the Capitol Area in the City of Augusta as described in Title 1, section 814.

Sec. 5. 5 MRSA §1061, sub-§5 is amended to read:

5. Trustees and employees not to have interest in investments. Except as otherwise provided, <u>in addition to the limi-</u> <u>tations of section 18</u>, no trustee and no employee of the board of trustees shall have any direct interest in the gains or profits of any investment made by the board; nor shall any trustee or employee of the board, directly or indirectly, for himself or as an agent, in any manner use the same except to make such current and necessary payments as are authorized by the board; nor shall any trustee or employee of the board become an indorser or surety; or in any manner an obligor, for moneys loaned or borrowed from the board.

Sec. 6. 5 MRSA §5009 is amended to read: §5009. Restrictions on employee interests

In addition to the limitations of section 18, no No member, officer or employee of the Office of Energy Resources shall acquire any interest, direct or indirect, in any contract or proposed contract negotiated or proposed by the Office of Energy Resources, nor shall any member, officer or employee participate in any decision or any contract entered into by the authority

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if he or she has an interest, direct or indirect, in any firm, partnership, corporation or association which will be a party to such contract or financially involved in any transaction with the authority.

Sec. 7. 7 MRSA §2952, 1st ¶, 2nd sentence is amended to read:

In addition to the limitations of Title 5, section 18, none None of the remaining 4 members of the commission shall at the time of appointment or while serving as a member of the commission, and no employee of the commission shall have any official business, other than retail purchases of milk, or professional connection or relation with, or hold any interest or stock or securities in, any producer, dealer, store or other person whose activities are subject to the jurisdiction of this commission; nor shall any member or employee of the commission render any professional or other service against any such producer, dealer, store or other person whose activities are subject to the jurisdiction of the commission or be a member of a firm which shall render any such service.

Sec. 8. 9-B MRSA §213, sub-§3 is enacted to read:

3. Additional limitations. The provisions of this section shall be in addition to the limitations of Title 5, section 18.

Sec. 9. 10 MRSA §865 is amended to read: §865. Conflicts of interest

In addition to the limitations of Title 5, section 18, no No member of the authority shall participate in any decision on any contract entered into by the authority under this chapter if he has any interest, direct or indirect, in any firm, partner-

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ship, corporation or association which may be a party to such contract, or if he has any interest, direct or indirect, in any firm, partnership, corporation or association which is a user of any projects to be financed pursuant to or in connection with such contract.

Sec. 10. 22 MRSA §314 is amended to read: §314. Conflict of Interest

In addition to the limitations of Title 5, section 18, a Any member or employee of the Department of Human Services or Health Systems Agency who has a substantial economic or fiduciary interest which would be affected by a recommendation or decision to issue or deny a certificate of need, or who has a close relative or economic associate whose interest would be so affected shall be ineligible to participate in the review, recommendation or decision making process with respect to any application for which the conflict of interest exists.

Sec. 11. 28 MRSA §60, 2nd sentence is amended to read:

In addition to the limitations of Title 5, section 18, neither Neither the commission, nor any employee, shall accept directly or indirectly any samples, gratuities, favors or anything of value from a manufacturer, seller, brewer or licensee or any representative of the same under circumstances which might reasonably be construed as influencing or improperly relating to past, present or future performance of his official duties.

Sec. 12. 29 MRSA §1517, new sentence between the 1st and 2nd sentences to read:

These rules shall be in addition to the limitations as they apply to state employees under Title 5, section 18.

Sec. 13. 30 MRSA §4603, last sentence is amended to read:

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Any violation of this section shall-constitute-a-misdemeaner. is a Class E Crime. The provisions of this section are in addition to the limitations of Title 5, section 18.

Sec. 14. 30 MRSA §5330, new ¶ between 1st and 2nd ¶¶ to read:

The provisions of this section shall be in addition to the limitations of Title 5, section 18.

Sec. 15. 35 MRSA §2, 1st sentence is amended to read:

In addition to the limitations of Title 5, section 18, no No member or employee of said commission shall have any official or professional connection or relation with or hold any stock or securities in any public utility, as defined in section 15, operating within this State, nor shall he render any professional service against any such public utility nor shall he be a member of a firm which shall render any such services.

STATEMENT OF FACT

This bill is a result of a study by the Joint Select Committee on Government Ethics as ordered by H.P. 1437. The purpose of this bill is to revise the ethics statutes relating to state employees. This bill strengthens and clarifies the provisions on avoiding the appearance of conflicts of interest by present state employees, removes the limitations on former partners of employees and added provisions on financial disclosure for certain employees.

LEGISLATIVE FINANCIAL DISCLOSURE

Sec. 1. 1 MRSA §1013, sub-§1, ¶C is amended:
C. To administer the disclosure of sources-of-income
<u>finances</u> by Legislators as required by this subchapter.
Sec. 2. 1 MRSA §1013, sub-§2, ¶J is amended:

J. The records of the commission and all information received by the commission acting under this subchapter in the course of its investigation and conduct of its affairs shall be confidential, except that Legislators' statements of sources-of-income, finances evidence or information disclosed at public hearings, the commission's findings of fact and its opinions and guidelines are public records. Sec. 3. 1 MRSA §1012, sub§§4 & 5 are enacted:

4. Future interests. "Future interests" means a legally enforceable right to income or property in the future, including: contracts or agreements for future employment or income; vested pension or retirement benefits; or distributive shares of a former partnership or business association.

5. Property. "Property" means both real estate and personal property.

Sec. 4. 1 MRSA §1016 is amended:

§1016. Statement-of-sources-of-income Statement of Finances.

Each member of the Senate and House of Representatives shall file a statement of sources-of-income finances for the preceding calendar year with the commission prior to the close of the 2nd week in February of each year. <u>The statement shall</u> <u>include sources of income, property and future interests</u>. Sources of income, property, or future interests need not be indicated by name, but shall be indicated by category or type of business entity or economic activity in such manner as shall be determined by the commission.

Sec. 5. 1 MRSA §1017, 1st ¶ is amended: §1017. Form; contents

The statement of sources-of-income finances filed under this subchapter shall be on a form prescribed by the commission and prepared by the Secretary of State and shall be a matter of public record. The Legislator filing the statement shall reveal each source of income to him or any member of his immediate family exceeding a value of \$300 in the aggregate during the preceding year. Campaign contributions, duty recorded as required by law, shall not be considered income for the purposes of the statement. Income received in kind, including but not limited to the transfer of property, options to buy or lease and stock certificates, shall be reported by identifying both the sources and the particular nature of the income. The legislator shall also reveal the property owned by him or any member of his immediate family exceeding \$5,000 in fair market value during the preceding year, and future rights that he or any member of his immediate family will be entitled to and that will exceed \$300 in income or \$5,000 in fair market value in any future year.

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STATEMENT OF FACT

This bill is a result of a study by the Joint Select Committee as ordered by H.P. 1437. The purpose of this bill is to change the Legislative financial disclosure requirements to conform to those recommended state employees in a companion bill. This bill would require disclosure by category of assets and future interests of legislators and their family.

JUDICIAL FINANCIAL DISCLOSURE

Sec. 4 MRSA c. 27 is enacted

CHAPTER 27

FINANCIAL DISCLOSURE

§1201. Definitions

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As used in this chapter, unless the context indicates otherwise, the following terms have the following meanings:

1. Appointed justice or judge. "Appointed justice or judge" means the Chief Justice, an Associate Justice and Active Retired Justice of the Supreme Judicial Court, a justice and Active Retired Justice of the Superior Court, a judge and Active Retired Judge of the District Court, and the Administrative Court Judge and Associate Administrative Court Judge.

2. Elected judge. "Elected judge" means a judge of the Probate Court.

3. Future interests. "Future interests" means a legally enforceable right to income or property in the future, including: contracts or agreements for future employment or income; vested pension or retirement benefits; or distributive shares of a former partnership or business association.

4. Income. "Income" means economic gain from any source, including: compensation for services, including fees, commissions and payments in kind; income derived from business; gains derived from property transactions, rents or royalties; income from investments, including interest, capital gains and dividends; alimony or separate maintenance payments; annuities; income from life insurance or endowment contracts; pensions; discharges of indebtedness; distributive share of partnership income; income from an interest in an estate or trust; and prizes, awards, grants or gifts.

5. Justice or judge. "Justice or judge" means an appointed or elected justice or judge.

 6. Property. "Property" means both real estate and personal property.

§1202. Statement of finances.

Each justice or judge shall file with the State Court Administrator, a statement of finances for the preceding calender year and an estimate for the next year. The statement shall either be sworn or contain notice that false statements are punishable under the criminal code. The statement shall indicate the category or type of:

1. Source of income. The entity or economic activity that is the source of income to him, his spouse or dependent children that exceeds \$300 during the year;

2. Property. Property owned by him, his spouse or dependent children that exceeds \$5,000 in fair market value during the year;

3. Future interests. Future rights that he, his spouse or dependent children will be entitled to and that will exceed \$300 in income or \$5,000 in fair market value in any future year; and

4. Practicing attorney. If he is a practicing attorney, the major areas of practice, and if associated with a law firm, the major areas of the firm's practice.
§1203. Time for filing.

1. Initial filing. An elected judge shall file an initial report within 30 days of his election. An appointed justice or judge shall file an initial report prior to confirmation by

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the Legislature.

2. Report of substantial change. Each justice or judge whose income or property substantially changes shall file a report of that change within 30 days of it.

§1204. Rules.

The Supreme Judicial Court may adopt or amend rules to specify the reportable categories or types, the methods of valuation, the procedures and forms for reporting and to administer this chapter.

§1206. Public record.

Statements filed under this chapter shall be public records.

STATEMENT OF FACT

This bill is a result of a study by the Joint Select Committee as ordered by H.P. 1437. The purpose of this bill is to require financial disclosure by justices and judges to conform to the standards applied to Legislators and state employees as recommended in companion bills. This bill would require justices and judges of all courts to disclose their sources of income, assets and future disclosure would be required on their appointment or election and subsequently when there was any major change.

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Whereas, the conflict of interest laws relating to state employees have been a subject of controversy; and

Whereas, these laws are vitally important to the integrity of state government and to the interests and actions of potential, present and former state employees; and

Whereas, they raise complex questions on the interaction of the public and private sector and the necessary and appropriate safeguards of the valued reputation of Maine State Government; now, therefore, be it

Ordered, the Senate concurring, subject to the Legislative Council's review and determinations hereinafter provided, that a Joint Select Committee on Government Ethics be directed to study possible changes in the statutes governing conflicts of interest for state employees, and to study in particular, the subject of the bill L.D. 1223, "AN ACT to Clarify Executive Conflict of Interest," as introduced in the First Regular Session of the 109th Legislature; and be it further

Ordered, that the Joint Select Committee shall consist of 3 members of the Joint Standing Committee on State Government and 3 members of the Joint Standing Committee on Judiciary, one Senator and 2 Representatives from each committee, to be appointed by the President of the Senate, for Senators, and the Speaker of the House, for Representatives; and be it further

Ordered, that the committee report its findings and recommendations, together with all necessary implementing legislation in accordance with the Joint Rules, to the Legislative Council for submission in Second final form at the / Regular Session of the 109th Legislature; and be it further

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Ordered, upon passage in concurrence, that a suitable copy of this Order shall be forwarded to the Chairmen of the Joint Standing Committee on State Government and to the Chairmen of the Joint Standing Committee on Judiciary, and to the Commission on Governmental Ethics and Election Practices.

(Mrs. Kany) Sponsor:

Town: Waterville

(Ault) Cosponsor:

County: Kennebec

HOUGE OF REPRESENTATIVES

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