

**SUBJECT:** Revolving-door restrictions on UT investment company employees

**COMMITTEE:** Pensions and Investments — committee substitute recommended

**VOTE:** 7 ayes — Telford, Woolley, Goolsby, Rangel, Sadler, Serna, Williams  
0 nays  
2 absent — Berlanga, Tillery

**WITNESSES:** For — None  
Against — None  
On — William H. Cunningham, Thomas Hicks, Thomas G. Ricks,  
University of Texas Investment Management Company (UTIMCO)

**BACKGROUND :** In 1995, the 74th Legislature authorized the University of Texas System to create a nonprofit corporation (UTIMCO) to supervise and conduct all investment activities involving the Permanent University Fund. The statute authorizing the company prohibits it from entering into any agreement with former employees, officers, or directors for a two-year period following their employment.

**DIGEST:** HB 1429 would amend the Education Code to apply the two-year limit on business transactions with UTIMCO to former directors only. Former officers and employees of the company would be prohibited from representing persons or from receiving funds in compensation for services supplied on any subject in which that they had participated, through either direct personal involvement or as part of their overall job responsibility.

Violations of these restrictions would be a Class A misdemeanor, punishable by up to one year in jail and a \$4,000 fine.

CSHB 1429 would take immediate effect if finally approved by a two-thirds record vote of the membership of both houses.

SUPPORTERS  
SAY:

CSHB 1429 would remedy a problem compromising the ability of an important investment arm of the state to hire top-quality financial specialists but would retain and enhance an effective revolving door restriction to prevent conflicts of interest. Promising recruits are refusing offers of employment from UT/UTIMCO because the current revolving door rules would hamper their ability to find subsequently employment with private-sector investment firms. In Texas, the most successful of these firms — and the targets of many aspiring young executives — often work directly with UT or its many affiliates or have clients with an interest in UT business.

The breadth of the two-year ban effectively prevents former UTIMCO employees from finding subsequent employment in the Central Texas area. The changes proposed by CSHB 1429 are necessary for UT/UTIMCO to attract and retain the top-level talent the fund needs for the continued development and management of a multi-billion dollar portfolio of assets and investments.

HB 1429 would bring UTIMCO rules more into line with the revolving door rules currently in place at other Texas government agencies. It would allow former employees, officers, and directors to engage in investment work and duties with other clients, while still restricting — under pain of criminal penalty — any conduct that would involve working directly with UTIMCO on particular subject matter over which they had general responsibility or in which they directly participated.

Helping UT recruit the best and most talented investment managers and technicians would benefit not only the Permanent University Fund but also the state and, ultimately, Texas taxpayers, who have been footing the cost of financial incentives UTIMCO has had to proffer to recruit adequate investment staff.

OPPONENTS  
SAY:

No apparent opposition.

HB 1429  
House Research Organization  
page 3

NOTES:

The committee substitute to HB 1429 defined the conduct that would fall under the revolving door prohibitions and added the provision that would allow the bill to take immediate effect.

The Senate passed an identical bill, SB 616 by Sibley, by 31-0 on March 20 on the Local and Uncontested Calendar. The House Pensions and Investments Committee reported SB 616 favorably, without amendment, on April 2, making it eligible to be considered in lieu of HB 1429.