

# **BALLOT PROPOSITION #102**

## **University Technology Transfers**

### **FISCAL ANALYSIS**

#### **Description**

Proposition 102 amends the Constitution to allow the state to acquire ownership in private companies in exchange for technology or intellectual property developed or acquired by the Arizona Board of Regents (ABOR) or the state universities under the board's jurisdiction. Ownership may only be obtained for investment as allowed by law. Pursuant to the accompanying legislation, ownership equity is to be treated as an endowment asset. Therefore, only the earnings from the ownership equity would be available for expenditure.

#### **Estimated Impact**

Proposition 102 has the potential to increase the level of research that is transferred to private companies. If the private companies that acquire the research are successful, the universities and the state would receive additional revenues. Given the start-up nature of companies that acquire university research, any additional revenues are more likely to be realized in the long-term. The state would also receive additional tax revenue from successful companies.

#### **Analysis**

The Arizona Constitution does not allow state and local agencies to be shareholders or joint owners in companies or corporations. Proposition 102 would allow the state (ABOR and state universities) to acquire ownership and securities in companies or corporations in exchange for technology or intellectual property created or acquired by ABOR and the state universities. Intellectual property is a term that encompasses the various intangible products of inventors, such as patents, copyrights, know-how, trade secrets, and other proprietary concepts. Technology and intellectual property is hereafter referred to as research.

Currently, ABOR and the state universities are allowed to transfer research to private companies and corporations in exchange for licensing fees and royalties. Approximately \$2.2 million was generated from licensing fees and royalties by state universities in FY 2003. Proposition 102 would allow ABOR and the state universities to transfer research in exchange for ownership equity instead of, or in addition to, licensing fees and royalties.

If the ability to exchange research for ownership equity creates more research transfers than would have otherwise occurred, the state universities would generate more revenue if commercialization of the research is successful. A greater level of research transfer could occur if the option for ownership equity 1) creates greater interest from private companies for commercialization of university research that may have seemed too risky for licensing fee and royalty only investment, and 2) encourages participation from private companies that previously could not afford up-front licensing fees. State revenues would also increase if successful commercialization is realized from the increased transfer activity by private companies located in the state. The state would collect additional taxes from these entities.

The level of transfers and revenues that may be generated as a result of Proposition 102 is difficult to predict. A survey by the Association of University Technology Managers indicates that revenues generated nationwide by universities liquidating their ownership equity in private companies tend to fluctuate annually: \$15 million in FY 2002, \$93 million in FY 2001, and \$165 million in FY 2000.

If the amount of licensing fees and royalties is reduced in favor of acquiring ownership equity, it is possible that short-term university revenues could be reduced. To the extent the value of ownership equity increases over time, the short-term reduction could be made up in the long-term if commercialization is successful. If commercialization is unsuccessful, university revenues may be reduced by the loss of up-front licensing fees.

#### **Local Government Impact**

Counties and incorporated cities and towns receive a percentage of state transaction privilege taxes. Incorporated cities and towns also receive a percentage of state individual and corporate income taxes through Urban Revenue Sharing. To the

extent that Proposition 102 would result in increases in these state revenue categories, local jurisdictions would experience a proportional increase in their share of state revenues.

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This estimate was prepared by Lorenzo Martinez (602-542-5491).