Intellectual Property & Technology Transfer Royalties
Universities
Program Summary

Program Overview
From FY 2003 to FY 2018 A.R.S. § 15-1670 required Arizona's public universities to deposit into the General Fund specified portions of income from licensure and royalty payments as well as income from the sale or transfer of intellectual property. Laws 2003, Chapter 267 appropriated General Fund monies to the universities for lease-purchase capital financing of research infrastructure projects to promote continued growth of scientific and technological research. The intent was for the universities to reimburse the state (up to the amount appropriated from the General Fund to the university) for its investment in research efforts and facilities.

Initial Statutory Requirements
- A.R.S. § 15-1670 appropriated General Fund monies to each of the 3 universities through FY 2031 for lease-purchase capital financing and research infrastructure projects.
- Universities were originally required to deposit 20% of income from licensure and royalty payments and 25% of income from the sale or transfer of intellectual property to the State Treasurer by October 1 following the end of the fiscal year.
- The amount deposited to the General Fund each fiscal year could not exceed the amount appropriated to the universities for the research facilities' debt service payments for that fiscal year.

Statute did not define income, and universities interpreted this to be gross royalties less the following expenditures: 1) legal fees; 2) costs of managing the technology transfer process; and 3) distributions of revenues to the inventors and their laboratories. Based on this interpretation, universities calculated zero net income each year and deposited no monies into the General Fund through FY 2016.

2017 Legislative Changes
Laws 2017, Chapter 328 established A.R.S. § 15-1671, which appropriated General Fund monies to be used for capital infrastructure at the universities, as part of a new billion-dollar bonding package. Chapter 328 also revised the revenue sharing provisions of licensure/royalty agreements and sales/transfers of intellectual property entered into after April 30, 2017. Chapter 328 clarified the definition of income and required the universities to annually deposit:

- For the first 3 years of each licensure or royalty contract, 20% of net income generated in the prior fiscal year.
- After the third year, 20% of gross annual revenues generated the prior fiscal year.
- For any sale or transfer of intellectual property, 25% of gross revenues generated by the transaction.
- All income sharing requirements apply to the universities and their component units, such as foundations.

The 2017 changes also clarified that the universities may not account for previous years' losses in their annual payments to the state General Fund and made permanent the technology transfer income sharing provisions. Chapter 328 also stipulated that the amount transferred by each university to the General Fund could not exceed the combined amount appropriated to the university that fiscal year under A.R.S. § 15-1670 and A.R.S. § 15-1671.

A.R.S. § 15-1670 appropriated approximately $33 million per year to the 3 universities to pay the debt service associated with the 2003 building package. Additionally, A.R.S. § 15-1671 appropriated $27 million per year to the 3 universities, adjusted for inflation each year (not to exceed 2%). These latter monies can be used for either the debt service on the billion-dollar bonding plan or other cash capital projects.

Although Chapter 328 made the income sharing provisions permanent, the A.R.S. § 15-1670 appropriations expire in FY 2031 and the A.R.S. § 15-1671 appropriations expire in FY 2043. Given that statute limits university deposits to the amount of these General Fund appropriations they receive, the universities will no longer be required to deposit payments into the General Fund after FY 2043.

From FY 2017 to FY 2018, ASU deposited $1,800 to the General Fund, NAU deposited $3,900, and UA deposited $18,400.

2019 Legislative Changes

Laws 2019, Chapter 266 reversed the 2017 changes. Chapter 266 further amends A.R.S. § 15-1670 to state that beginning in FY 2019, universities shall transfer 20% of cumulative net income exceeding $1,000,000 to the Arizona Financial Aid Trust (AFAT), rather than the General Fund as done in previous years. A.R.S. § 15-1642 requires that 25% of monies in the AFAT be placed in the fund as a permanent endowment. The remaining monies in the fund must be used as immediate aid for in-state students at ASU, NAU, or UA. Previously, AFAT revenues consisted only of tuition surcharges collected from university students.

Chapter 266 also clarifies that when calculating cumulative net income, universities may not reduce their required deposits due to net income or net expenses associated with other projects. The 2019 changes define net income as payments that are received from individual licensure and royalty agreements and the sale or transfer of intellectual property developed by the university. Expenses related to individual agreements includes: 1) revenue shares paid to inventors and inventors laboratories in support of their research activities; 2) expenses related to pursuing, maintaining, or protecting intellectual property; 3) expenses related to commercializing, licensing, or litigating intellectual property; 4) contractually required distributions to third parties; 5) reimbursement holds related to future contractual reimbursements; and 6) operational management fees.

Arizona Board of Regents (ABOR) Royalty Results

Table 1 shows the most recent data available (FY 2017) that ABOR has reported on the number of invention disclosures, patent applications, patents issued, and licenses and options executed by each of the 3 universities.

Table 1

University Technology Transfer Statistics – FY 2017

	ASU	**NAU**	**UA**
Invention Disclosures	277	46	261
Patent Applications	183	17	138
Patents Issued	85	6	47
Licenses and Options	97	3	105

Table 2 shows historic technology royalties received by the universities. As discussed, due to the universities calculation methodology, there were minimal distributions of royalties to the General Fund in these years.

Table 2

University System Technology Royalties – Gross Revenues

	FY 2012 1/	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016** 2/	**FY 2017** 3/	**FY 2018** 3/	**Cumulative FY 12-18**
ASU	$1,745,000	$2,182,000	$3,409,000	$1,120,000	$10,814,000	$775,100	$760,700	$20,805,800
NAU	22,300	25,500	32,100	74,900	5,300	45,000	36,200	241,300
UA	908,200	926,000	1,100,000	3,895,900	2,015,800	2,700,000	4,100,000	15,645,900
Total	**$2,675,500**	**$3,133,500**	**$4,541,100**	**$5,090,800**	**$12,835,100**	**$3,520,100**	**$4,896,900**	**$36,693,000**

1/ UA's FY 2012 technology transfer revenues are not available, so the value has been estimated as the average of FY 2011 and FY 2013.
2/ ASU's FY 2016 revenues include one-time revenues from a legal settlement.
3/ Represents total gross income (before and after April 30, 2017).

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