



## **MEMO**

**DATE:** August 12, 2005

**TO:** Chancellor George Pernsteiner

**FROM:** Senators Frank Morse, Betsy Johnson, Ryan Deckert, and Representative Tom Butler

**RE:** Intent of Senate Bill 853 University Venture Fund

This memo is in response to requests for more details regarding the operational intent of Senate Bill 853. As primary sponsors of the bill, we would like to comment on the vision we had when crafting the bill. Hopefully you will find these comments helpful for promulgation of administrative rules. We would also like to point out that as sponsors we have a general vision for the bill. We also very much look forward to the creative ideas of the proposed advisory committee that will provide the specifics for its operation.

### **GOAL**

The goal of the University Venture Fund is to provide funding that will prove the commercialization of inventions, concepts, technologies, etc., integrate entrepreneurial education/development into the commercialization efforts, return an income stream to the respective sponsoring universities, and create Oregon jobs and businesses.

### **OBJECTIVES**

The purpose of the University Venture Fund is to provide grants for research and business concepts that have **HIGH COMMERCIAL POTENTIAL**. In other words, we do not envision this money to be used for early stage research or basic entrepreneurial education, but rather to be used for funding projects that are closest to realizing economic development potential. For many of the research efforts that use proof of concept/valley of death University Venture Funds we expect their next steps will be to access private seed investment.

For entrepreneurial education/development efforts, we anticipate this fund connecting to and supporting the business aspects of commercialized research. The fund should also be

considered for entrepreneurial efforts for proof of concept funding where potential spin-off companies and commercial products are developed. We do not believe these funds should be used for staffing that is not directly involved with specific commercialization efforts.

In plain language, at the end of the day and in the aggregate total, these funds MUST provide a return to the universities, the Oregon Treasury (tax credit recapture), and Oregon's economy. If there is success, it is quite likely the legislature will renew the concept for additional funds in the future.

## **OPERATIONAL ASPECTS**

Distribution to Universities: Administrative rules should allocate the \$10 million OUS fund among its campuses based on a formula that considers past and projected commercialized research and business development activities. The formula developed for the Higher Education Tech Transfer Fund with additional input from the business schools may be a good starting point.

The sponsors also recognize the commercial research and business efforts underway at the four regional universities. While it may be unlikely that each of the four regional universities would create a University Venture Fund, administrative rules should include the ability for all campuses to access funding.

Distribution within Universities: While we anticipate that each institution will have some flexibility to distribute funds among proof of concept, entrepreneurial education/development and tech transfer activities, we believe the principle focus must be on those activities that have the greatest potential for economic return to the universities.

Collaboration between Universities: We strongly encourage that Venture Funds support collaborative activities such as ONAMI or joint entrepreneurial development efforts among business schools.

Access to Private Sector Expertise: Many of the applications for funding may require outside or private sector expertise to bring experience and knowledge to the grant approval process. It is recommended that the OUS system develop pools of expertise by research or industry segment to which all campuses would have access. This idea of a shared pool of experts might also reduce potential conflicts of interest.

Marketing and Outreach: As the success of SB 853 is predicated on tax creditable donations to university foundations, it is recommended that consideration be given to focusing on two donor channels, the traditional alumni channel and the "wealth management" channel (individuals with significant investment income). The tax benefits of the bill will be of interest to accountants, financial planners and other wealth management organizations that make tax planning recommendations to their clients. It is recommended that fund raising efforts recognize the wider range of access to donors.

Donor Directed Funds: We do not believe it would be in the best interests of the program to allow donor directed funds for specific uses. The potential for abuse and conflict of interest exists if donors can specifically direct funds into a project in which they themselves would have a beneficial interest. Such activity would jeopardize the entire program.

Administration Fees: We anticipate the administration of this fund to be consistent with other foundation efforts and best practices for similar funds in other states.

## **ADVISORY COMMITTEE FOR ESTABLISHING ADMINISTRATIVE RULES**

The administrative rules for SB 853 will be critical to the success of the fund at each campus and system-wide. It is our recommendation that an advisory committee be formed as soon as possible to develop the administrative rules. Since this bill was an outgrowth of OCKED, the committee could be a joint project of the Higher Education Board's Academic Excellence and Economic Development (AEED) Committee and OCKED (or the soon to be formed Oregon Innovation Council). Staffing would be shared by AEED and OCKED. We recommend a 15 person committee with the following representation:

Chair: AEED Chair

Government/Legislative Representation (3): Governor's Office and two legislators (bill sponsors?)

University Representation (7): One Business School Dean, one Vice President of Research, one Tech Transfer Director, a foundation officer, a development officer, and two representatives from regional universities.

Private Sector Representation (4): A commercialization professional not associated with any institutions (e.g. someone from PNNL), an entrepreneur who has worked with a university to commercialize research, a seed stage venture capitalist, and a business development professional with experience in establishing or forming university spin-off businesses (e.g. attorney or accountant).

We hope this memo helps to clarify the intent of SB 853 and will provide a starting point for administrative rule discussions. If at the end of the day we have not generated returns for our universities and our state economy, we will have failed. Thus, we cannot over-emphasize the priority: **HIGH COMMERCIAL POTENTIAL AND RETURN ON INVESTMENT**

Please do not hesitate to call us with questions. We look forward to the next steps in this journey.