Date of Hearing: April 19, 2016

ASSEMBLY COMMITTEE ON JUDICIARY
Mark Stone, Chair
AB 2880 (Committee on Judiciary) – As Amended March 15, 2016

SUBJECT: STATE INTELLECTUAL PROPERTY

KEY ISSUE: IN ORDER TO STRENGTHEN THE STATE'S STATUTORY FRAMEWORK ON STATE-OWNED INTELLECTUAL PROPERTY AND TO ENSURE THAT THE RIGHTS OF THE PUBLIC ARE PROTECTED, SHOULD STATE AGENCIES BE PROVIDED WITH ADDITIONAL GUIDANCE IN THE ADMINISTRATION OF THE STATE'S INTELLECTUAL PROPERTY, CONSISTENT WITH RECOMMENDATIONS ISSUED BY THE STATE AUDITOR?

SYNOPSIS

The well-publicized Yosemite National Park trademark dispute not only put a spotlight on the federal government's intellectual property rights, but also raised questions about the State of California's intellectual property rights, as well. Specifically, it prompted the Committee to pose the following question: does a third-party contractor who enters into a contract with the state acquire any intellectual property rights over products and services a contractor creates and provides to the public that is funded with public dollars, even after the contract expires?

During this Committee's investigation, it learned that California's statutory framework relating to the state's management of its intellectual property could be improved. In 2010, the State Auditor issued a report that provided recommendations to the Legislature on how it could improve its administration of copyrights, trademarks, patents, and trade secrets. In 2012, the Legislature enacted AB 744 (Perez, Chap. 463, Stats. 2012) which requires the Department of General Services (DGS) to develop guidance to assist state agencies in managing intellectual property. This bill builds on the framework established by AB 744 by implementing a number of the State Auditor's recommendations, and improving state contracts where state-owned intellectual property is at stake.

In summary, this bill does all of the following: (1) clarifies existing law that public agencies may own, license, and register intellectual property, and provides that such intellectual property is still accessible under the California Public Records Act; (2) provides policy guidance to DGS on factors state agencies should consider when deciding whether to sell or license state-owned intellectual property; (3) enables DGS to include guidelines in its State Contracting Manual on how state agencies should manage its intellectual property; (4) requires state agencies, when entering into a contract, to consider the guidance, policies, and procedures developed by DGS on intellectual property; and (5) prohibits a state contract that waives the state's intellectual property unless DGS has consented to the waiver. This bill is sponsored by the Committee.

The Electronic Frontier Foundation (EFF), who opposes the bill unless it is amended, believes that the bill's provision which clarifies that public agencies may own, license, and register intellectual property would allow state and local government the power to suppress the dissemination of government-funded works for nearly a century after creation. However, given that this bill explicitly provides that a public entity's ability to have intellectual property does not

prevent that entity from disclosing the information under the California Public Records Act, EFF's argument appears to be unpersuasive.

SUMMARY: Strengthens the statutory framework on rules, processes, and procedures relating to state intellectual property and provides additional guidance to state agencies to manage and protect the state's intellectual property. Specifically, **this bill**:

1) Requires the Department of General Services (DGS) to include the factors of the state's best interest, maintaining public access, and the discouragement of unauthorized economic gain when developing factors for state agencies that decide to sell or license intellectual property.

2) Requires DGS to develop sample language for an advisory provision stating that a waiver of the state's intellectual property rights is subject to the approval of DGS and that the lack of that approval renders an attempted waiver void as against public policy.

3) Provides that a public entity may own, license, and if it deems it appropriate, formally register intellectual property it creates or otherwise requires. Further provides that a public entity's intellectual property right shall not preclude the public entity from disclosing any information otherwise accessible under the California Public Records Act (CPRA). Further provides that a disclosure under the CPRA shall not be construed as waiving any rights afforded under the federal Copyright Act.

4) Provides that the maintenance and development of processes, procedures, or policies in connection with DGS' duties relating to intellectual property, as provided, shall be exempt from California's Administrative Procedure Act, similar to other DGS contracting rules.

5) Requires all state agencies to consider the processes, procedures, or policies developed by DGS relating to intellectual property, as provided.

6) Provides that for contracts entered into after January 1, 2017, all of the following shall apply:

    a) A state agency shall not enter into a contract under this article that waives the state's intellectual property rights unless the state agency, prior to execution of the contract, obtains the consent of the department to the waiver.
    b) An attempted waiver of the state's intellectual property rights by a state agency that violates #6a) shall be deemed void as against public policy.

EXISTING LAW:

1) Declares that the Legislature supports the use of efficient models to develop and streamline infrastructures, policies, and processes for the management of intellectual property developed under state funding in order to stimulate economic development in the state while, at the same time, minimize the costs of administering policies in this area. (Government Code Section 13988. All further statutory references are to the Government Code, unless otherwise indicated.)

2) States that it is the intent of the Legislature that the rights of state agencies and departments to track and manage intellectual property created with any state funds shall be interpreted as to promote the benefit of the public. Further states that it is the intent of the Legislature that DGS have access to information about intellectual property created by state employees and

by state-funded research, consistent with state and federal laws and regulations governing access to this information. (*Ibid.*)

3) Requires DGS to track intellectual property generated by state employees or with state funding. (Section 13988.2.)

4) Requires DGS to develop a database that includes, but is not limited to, tracking intellectual property, as described. The database shall be updated every three years after its commencement in 2015. (*Ibid.*)

5) Requires DGS to do all of the following:

   a) Develop factors that state agencies should consider when deciding whether to sell their intellectual property or license it to others.
   b) Develop an outreach campaign informing state agencies of their rights and abilities concerning intellectual property created by their employees.
   c) Develop sample invention assignment agreements that state agencies can consider if they believe it is necessary to secure the rights to potentially patentable items created by their employees on worktime using state resources.
   d) Develop sample language for licenses or terms-of-use agreements that state agencies can use to limit the use of their intellectual property by others to only appropriate purposes. (*Ibid.*)

6) Authorizes state agencies and departments to share records and information related to intellectual property generated by state employees or with state funding with the department. (Section 13988.3.)

7) Provides that where the Legislature directs or authorizes DGS to maintain, develop, or prescribe processes, procedures, or policies in connection with the administration of its duties, as provided, the actions by the department shall be exempt from the Administrative Procedure Act, as described. Further provides that these provisions shall apply to actions taken by DGS with respect to the State Administrative Manual and the State Contracting Manual. (Section 14615.1.)

8) Establishes specific rules that shall apply to all contracts, including amendments, entered into by any state agency for services to be rendered to the state, as provided. (Public Contract Code Section 10335.)

FISCAL EFFECT: As currently in print this bill is keyed fiscal.

COMMENTS: Last year, a well-publicized trademark dispute arose between the National Park Service (the federal entity that manages federal parks) and Delaware North Company (the departing Yosemite concessioner) over attractions and facilities in Yosemite National Park.

Background on the Yosemite legal dispute. For the last 23 years, the Delaware North Company operated as the concessionaire in Yosemite National Park under a contract with the National Park Service. In 2015, the National Park Service rebid the contract and awarded a new 15-year concession contract to Aramark, who was the successful bidder. After the National Park Service awarded the new contract, Delaware North Company sued the National Park Service for breach of contract and asserted compensation for various trademarks associated with Yosemite National

Park. It is still unclear whether Delaware North Company actually has legitimate property interests in the trademarks associated with Yosemite Park.

Delaware North's federal complaint suggests it received its rights from the previous concessionaire, The Curry Company. In a federal complaint lodged with the United States Court of Federal Claims, Delaware North Company alleges that it acquired the trademarks and intellectual property rights from the prior concessionaire. (Complaint, DNC Parks & Resorts at Yosemite Inc., v. United States, No. 15-1034C (Ct.Cl. September 17, 2015) [herein, Complaint, *supra*].) Delaware North Company contends that prior to 1993, the Curry Company provided visitor services at Yosemite for more than 100 years. (*Ibid.*) The Curry Company built significant improvements in Yosemite with its own capital, including The Ahwahnee, Yosemite Lodge, and Curry Village. (*Ibid.*) The Curry Company developed and used registered and unregistered trademarks and servicemarks in its operations, including the Half-Dome logo design, "The Ahwahnee" hotel name and logo design, and "Go Climb A Rock." (*Ibid.*) The Curry Company's final concession contract included terms which provided that if there was a successor concessionaire, the Curry Company would be required to sell its possessory interest in its improvements, and all other property used or held for use in connect with its Yosemite operations. (*Ibid.*) Additionally, any successor concessionaire would be required to purchase the Curry Company's possessory interests and other property for fair value. (*Ibid.*) And of course, that successor concessionaire was the Delaware North Company.

The United States' Answer to the federal complaint does not dispute several of Delaware North's allegations. In fact, in the Answer filed by the United States, the United States admits that the Curry Company registered trademarks, servicemarks, and logos in connection with its operation including the Half-Dome logo and "The Ahwahnee" hotel name. (Answer, DNC Parks & Resorts at Yosemite Inc., v. United States, No. 15-1034C (Ct.Cl. September 17, 2015) [herein, Answer, *supra*].) The United States also admits that the Curry Company was required to sell its possessory and property interests, and that the Delaware North Company was required to purchase those possessory and property interests. (*Ibid.*) Although the litigation is still pending, if the Delaware North Company's allegations are true, the legal dispute would seem to be more about the valuation of the trademark rights, and not on the ownership. In other words, as disagreeable as it is, the Delaware North Company might have actual and legitimate property interests in certain trademarks associated with Yosemite National Park.

To better understand the dispute, this Committee spoke with state agencies to determine the health of the state's intellectual property. The trademark dispute between the National Park Service and Delaware North put a spotlight on governmental intellectual property rights, and posed the following question for the state: does a third-party contractor who enters into a contract with the state acquire any intellectual property rights over products and services a contractor creates and provides to the public that is funded with public dollars, even after the contract expires? In 2000 and 2011, the State Auditor issued recommendations to the Legislature to take steps to help state agencies manage and protect the State's intellectual property. (State Auditor report 2000-110, *State-Owned Intellectual Property: Opportunities Exist for the State to Improve Administration of Its Copyrights, Trademarks, Patents, and Trade Secrets.*) In 2012, the Legislature enacted AB 744 (Perez, Chap. 463, Stats. 2012), which requires the Department of General Services (DGS) to develop guidance to assist state agencies in managing intellectual property. The guidance is developed by a working group consisting of attorneys from various state agencies who have expertise in intellectual property. Under current

law, nothing requires a state agency to review, comply with, or even consider the guidance of the working group.

This Committee has learned that some state agencies, including California State Parks, have taken steps to develop policies and procedures to protect the intellectual property rights of the state and the public; however, most state agencies have not done so. Indeed, the lack of a robust intellectual property framework has led to confusion among state agencies, loose and informal practices, and possibly confusion among state and federal courts. Several recent court decisions have held that state agencies need legislative authority to hold intellectual property rights. In light of the recent Yosemite trademark issue and the recent court decisions, this bill builds on the framework established by AB 744 in order to assist state agencies manage and protect the state's intellectual property rights, particularly in state contracts where state-owned intellectual property is at stake.

Summary of the bill: In summary, this bill does all of the following: (1) clarifies existing law that public agencies may own, license, and register intellectual property; (2) provides policy guidance to the Department of General Services (DGS) on factors state agencies should consider when deciding whether to sell or license state-owned intellectual property; (3) enables DGS to include guidelines in its State Contracting Manual on how state agencies should manage its intellectual property; (4) requires state agencies, when entering into a contract, to consider the guidance, policies, and procedures developed by DGS on intellectual property; and (5) prohibits a state contract that waives the state's intellectual property unless DGS has consented to the waiver.

This bill clarifies existing law to allow public entities to own and hold intellectual property, while maintaining the public's protection under the California Public Records Act. Several recent court cases have held that state agencies cannot own or hold intellectual property rights unless the Legislature provides the agency with that explicit authority ("in the absence of an affirmative grant of authority to obtain and hold copyrights, a California public entity may not do so" (*City of Inglewood v. Teixeira* (C.D.Cal. 2015), relying on *County of Santa Clara v. Superior Court* (2009) 170 Cal.App.4th 1301)).

Although it has always been the intent of the Legislature to ensure that California agencies can own, hold, and acquire intellectual property, this bill clarifies existing law by explicitly providing that a California public entity may own, license, and if deemed appropriate, register intellectual property. In order to maintain the public's right to information and to allow for derivative use, this bill also provides that the state's intellectual property rights does not preclude a public entity from disclosing information otherwise accessible under the California Public Records Act – consistent with the State Auditor's recommendation.

In her report, the State Auditor acknowledged the concern that allowing state ownership of intellectual property might restrict the dissemination of information; however, this concern is addressed by clarifying that information would still be subject to the California Public Records Act—which is exactly what this bill aims to do. In the 2000-110 Auditor Report, the Auditor write:

> One concern arising from state ownership of intellectual property is that ownership conflicts with the principle of open government—as embodied in the California Public Records Act—by restricting the dissemination of information. The argument is that state agencies could use intellectual property laws to deny access to information they create that would otherwise be

> accessible. In at least one state, this threat exists because materials to which access is limited by copyright or patents can be legally withheld from the public.
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> However, since California does not have similar exclusions, this threat seems remote. Even so, **the State can answer this concern by clarifying existing law to declare its intent that protection under intellectual property laws does not preclude state agencies from disclosing otherwise accessible information. Such a clarification, while not requiring state agencies to disclose material kept confidential under trade secret laws, would enable state agencies to provide access to material protected by other intellectual property laws.**

(State Auditor report 2000-110, *State-Owned Intellectual Property: Opportunities Exist for the State to Improve Administration of Its Copyrights, Trademarks, Patents, and Trade Secrets.* [Emphasis added].)

This bill provides DGS with additional policy guidance and factors that state agencies should consider when they decide to sell or license state-owned intellectual property. Under current law, DGS is required to develop factors to assist state agencies that decide to sell or license state-owned intellectual property. This Committee has learned the DGS and the Intellectual Property Working Group have been working diligently in crafting an Intellectual Property Model Management Plan. In order to provide the Intellectual Property Working Group with additional policy guidance in crafting the plan, this bill requires state agencies to also consider the following factors: the state's best interest, public access to information, and the discouragement of unauthorized economic gain. Additionally, to ensure that the work done by the Intellectual Property Working Group is not done for naught, this bill requires a state agency to consider the guidelines developed by DGS when the state agency enters into a contract.

This bill makes it easier for DGS to adopt rules relating to intellectual property to be included in the State Contract Manual. According to the State Auditor, the State Contract Manual (SCM), a document that provides guidance to state agencies on rules and procedures for state contracting, does not provide any guidance on how a state agency should manage its intellectual property. This bill clarifies the statutory authority for DGS to adopt rules and procedures in its SCM to include guidance to state agencies about how to manage intellectual property.

This bill strengthens California's contracts in order to protect the State's intellectual property. In light of the recent Yosemite trademark issue, this Committee is particularly concerned about the waiver of the State's intellectual property rights. Of course, there are instances when it might be appropriate for a contractor to have certain property rights over works that a contractor creates for the state. For example, when the State commissions an artist to create a mural, the State may decide that it is appropriate for the artist to maintain certain rights over that work (e.g. right to reproduce, distribute, or sublicense).

To ensure that the State is acting properly to protect its rights, and to allow the State to have some flexibility and discretion when it is appropriate, this bill prohibits any contract that waives the state's intellectual property unless DGS has provided consent to the contracting state agency. To ensure that parties that contract with the state have notice of these waiver provisions, this bill also requires DGS to develop sample language advising a party what happens if a state agency waives its intellectual property rights.

This bill implements several State Auditor recommendations relating to the state's intellectual property. As previously stated, the State Auditor issued a report in 2000 that made recommendations to the Legislature about adopting policies to improve the state's administration of its intellectual property. (State Auditor report 2000-110, *supra.*) While many of the Auditor's recommendations were implemented by AB 744, this bill implements several more of the recommendations. Although the State Auditor cannot officially support or oppose legislation, at the Committee's request, the State Auditor provided a letter to the Committee, indicating that this bill would implement several of its recommendations made in her 2000-110 report. In the letter, the State Auditor writes:

> AB 2880 would, if enacted, address four key recommendations made in our audit report on intellectual property:
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> Our office previously recommended that the Legislature designate a lead agency to oversee intellectual property in California and require that lead agency to develop factors that should be taken into consideration when deciding how and when to protect the State's interests in intellectual property. Prior legislation designated the Department of General Services as that lead agency and directed it to develop those factors. AB 2880 specifies what those factors should include, and is consistent with our recommendation. (AB 2880, Sec. 1).
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> Our office previously recommended that the Legislature clarify state law to specifically allow a public entity to own, license, and if appropriate, register intellectual property it creates or acquires. Our office also recommended that state law clarify that a public entity's intellectual property rights would not preclude the public entity from disclosing any information otherwise accessible under the California Public Records Act. AB 2880 would implement both of those recommendations. (AB 2880, Sec. 2)
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> Our office previously recommended that the Legislature should consider whether the public is best served when the State uses standard contract language that essentially gives vendors the right to use and sell the intellectual property they develop under state-funded contracts. AB 2880 would address this recommendation by prohibiting a contract entered into on or after January 1, 2017 from waiving the State's intellectual property rights unless the Department of General Services consents to that waiver. (AB 2880, Sec. 4).

ARGUMENTS IN OPPOSITION: The Electronic Frontier Foundation (EFF), in opposition unless amended, believes that this bill would grant state and local government the power to suppress the dissemination of government-funded works, even with the Public Record Act exemption provided in the bill. The EFF writes:

> The bill represents a significant shift away from California's role as one of the strongest state contributors to the public domain.
>
> The purpose of copyright law is to incentivize creativity by granting a monopoly over a work for a limited time. However, such incentives are unnecessary when the resources are provided from the taxpayer. As a result, Congress has expressly excluded all work done by federal government employees from the scope of copyright, so that taxpayers can immediately benefit from new contributions to the public domain. AB 2880 would chart a different course by granting state and local governments the power to assert copyrights over taxpayer-funded work. This presents a serious issue, as it would grant state and local

government the power to suppress the dissemination of government-funded works for nearly a century after creation, despite the current Public Records Act exemptions in the bill.

The legislative history on state copyright law indicates that the legislature never intended for all divisions of government to have the power to assert copyright. In fact, the legislature's approach has favored enriching the public domain. For example, state law encourages state-funded research to be put into the public domain where appropriate. Publications involving consumer information and county created geographic information system basemaps are automatically put into the public domain under state law. In only five specific and limited circumstances has the state legislature decided to grant copyright authority to state employees. Those instances are for computer software, community colleges, county boards of education, works created by the Department of Toxic Substances Control, and works created under contract with the California Health and Human Services Agency.

While EFF's general concern about the government holding onto information appears to be valid, to a certain extent, this bill already prevents this concern. Under the bill, a public entity's ability to have intellectual property does not preclude that entity from making information available under California Public Records Act. As previously mentioned, this explicit California Public Records Act protection under the bill was recommended by the State Auditor.

Additionally, nothing in this bill prevents the state from releasing information into the public domain. Currently, this bill merely provides that a public entity may own, license, and, if it deems it appropriate, formally register intellectual property it creates or otherwise acquires. The example cited in EFF's opposition about how "county created geographic information system basemaps are automatically put into the public domain under state law" is a helpful illustration of this point. EFF argues that this information is in the public domain and the public has a right to use that information for commercial purposes (i.e. to create maps for sale). However, if counties produced their own maps, on the other hand, and determine that those maps should be copyrighted, this bill merely allows the county to copyright those maps and provide the public with an unrestricted license to use those maps.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

Electronic Frontier Foundation (oppose unless amended)

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