The Role of Intellectual Property in the Stimulus: Lessons Learned From the Use of IP Provisions in Recovery Act Assistance Agreements

BY JAMES G. MCEWEN, RICHARD W. OELER, GEOFF COOPER, JOHN LUCAS, AND ERIC A. AASERUD

While June 2009 marked the official end of the “Great Recession,” Congress and the president came together amid this country’s ongoing economic crisis to pass the American Recovery and Reinvestment Act of 2009, Public No. Law 111-5 (ARRA). The Act’s stated purposes were to “preserve and create jobs and promote economic recovery”; “assist those most impacted by the recession”; “provide investments needed to increase economic efficiency by spurring technological advances in science and health”; “invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits”; and “stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.” In order to accomplish these tasks, the Recovery Act allocated $787 billion.

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DONALD G. FEATHERSTUN, CHAIR

This column is being published about the same time as the Section's 6th Annual State and Local Procurement Symposium. I thought, therefore, that I might describe what it is like to practice at the state and local level. I know that many of our members practice almost exclusively at the federal level, so you may appreciate learning about some of the challenges of practicing state and local procurement law. To put this area of practice into perspective, I have seen a National Association of State Procurement Officials (NASPO) white paper that notes that there are almost 87,000 state and local government agencies that spend over a trillion dollars—that's 1 followed by 12 zeros—a year on procurements. Many of the same issues that exist at the federal level also exist at the state and local level, and present the same types of complex problems.

State and Local Procurement Laws

One of the first challenges a practitioner at the state and local level faces is finding the controlling procurement statutes. In California, we have the Public Contract Code, which makes it sound easy. However, the code has sections for the State Contract Act, State Acquisition of Goods and Services, University of California Competitive Bidding, California State University Contract Law, Acquisition of Information Technology Goods and Services, Contracting by Local Agencies, and more. We have the California Code of Regulations, throughout which one will find sections on a given procurement topic. Occasionally, agencies will have directives or manuals published on their websites that provide additional governance. Local agencies may have ordinances and/or regulations separate and distinct from the Public Contract Code. School districts can be unique creatures to deal with—particularly where a school board has attorney and nonattorney members, each with different views of the law. One of our school districts even has its own inspector general.

Bid Protests

California has a variety of forums for bid protests. Construction contract protests can only be brought in court at the state level. Local governments may permit a protest to the local agency.

After that, it gets complicated. Contracts for services and consulting services are covered by one protest process and forum, while contracts for the procurement of goods, telecommunications, and IT goods and services are covered by another.

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When Is an Agreement Not an Agreement?

By Pensive Poser, Esquire

Wouldn’t you agree that the last thing I need is for someone to start asking me questions? Don’t I have enough questions of my own?

But here came this young lawyer who threw a copy of this big, fat Armed Services Board of Contract Appeals decision at me, and asked, “How do you explain this one?” She then plopped down in my side chair, demonstrating an apparent intent to camp out in my office until pacified.

I immediately adopted a certain cool aloofness that I have cultivated over the years when in threatening situations, but certain questions sprang immediately to mind: “Why would she ask me this? Doesn’t she know that, as a name partner, I only ask questions and never have any good answers? Doesn’t she know that I no longer have the patience or mental capacities to read a decision of this heft?” And, perhaps most relevant of all, “How am I going to get her out of my office?”

The look of bewilderment that—for only a moment—cracked my veneer of calm detachment undoubtedly gave her a clue to my internal discomfort. To my temporary relief, however, she hastily explained that her question only involved the first part of the decision that, mercifully, covered only a few pages. But she obviously expected me to read those pages, then and there.

She tapped her foot and waited with a determined scowl on her normally pulchritudinous physiognomy. I confess that my look of aloofness is no match for a determined scowl. I began to read.

I soon discovered that the contractor had a lot of claims—28 of them—but it thought it had settled 10 of them with the contracting officer and the contracting officer’s attorney in a meeting a few months before the hearing. The attorneys for the contracting officer and the contractor had signed a handwritten agreement that provided that the parties “have agreed to resolve certain claims,” set out exactly which claims had been settled and the settlement amount for each, and specified that the contractor would withdraw those claims upon payment. The parties in their written agreement also said that they were reserving certain issues, and then there was this: “This document represents the totality of the Parties’ agreement on this Appeal; no other issues have been agreed upon by the parties in this settlement negotiation.” Later that same day they executed an “addendum” to what they called in the addendum the “settlement agreement,” specifying that

“the settlement of claims hereby will affect the Lost Profits claims by applying to the lost profits evaluation a pro rata reduction based on the discounts in the claims that were negotiated from the total amount claimed. . . .” That was enough reading for now, I thought.

Having had time to bolster my affectation of that certain partnerly nonchalance, I looked up and asked my young interlocutor, “So what’s the problem?”

“What’s the problem?” she rejoined, as the tapping stopped and she stood up with a jolt. “The problem is that the decision holds that this document—a document that not only calls itself a settlement agreement but also was signed by both parties—was really not an agreement at all!”

“Ahhhhh!” I said, trying to adopt as sagacious a tone as possible, with only middling success. It seems that I had quit reading too soon. When I reapplied myself and read further, I found that she was exactly right, for the decision did conclude that there was no “meeting of the minds” about there being “a final and complete settlement agreement.”

When I again looked up, she demanded of me, “How can there not be a ‘meeting of the minds’ when there is an executed agreement?”

“Normally, there would be,” I started, wishing I had paid more attention in Contracts 101 at my alma mater. “Here, though, the decision says there was an oral understanding that the agreement would be put in a contract modification and the parties were unable to negotiate that modification.”

“An oral understanding?” she snapped. “An oral understanding!” (I had heard her quite well the first time, but she repeated herself.) “What about the integration clause in the written agreement they signed that said they had made no other agreements? Why didn’t that include this oral agreement about a modification? What about the recent decision of the Federal Circuit upholding the sanctity of integration clauses when ruling against a contractor, refusing to consider a written side letter that was affixed to the agreement contemporaneously? Doesn’t that count when it is the contractor that relies on the integration clause?”

“Settle down, now,” I said soothingly. “Settle down.” (If she could repeat herself, so could I. Besides, I needed more time to scan the decision.) “The decision explains that in a footnote. It says the integration clause in the agreement ‘does not state that it is the totality of all terms and conditions for final settlement of the 10 claims.’”

To my discomfort, she was not assuaged. “Since when does an integration clause have to say that?” and “What material term was omitted?” she countered. “And, even

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thought the contracting officer said he wanted to put the agreement in a modification to the contract, wasn’t that a mere formality that should not have affected the binding nature of the settlement agreement? Don’t parties state expressly that a written agreement is not binding if that is what they intend?” I had to admit that she had both logic and the law on her side on this,10 and so I decided to switch tacks to navigate around the storm clouds on her brow.

“The decision points out that, when the parties were trying to negotiate the modification, the parties could not agree on the timing of the payments or how the settlement would apply to the lost profits calculation,” I observed.

But before I could continue, she was on me like a Japanese beetle on a rose bush: “Am I just meant to throw out everything I learned in law school?” she pouted. I was thinking that I had done exactly that with relative ease, so why was she finding it so difficult, but before I could respond, she continued, “Isn’t a reasonable time period implied when none is specified in an agreement?12 And what was wrong with what they said in the addendum about there being a pro rata application to the lost profits calculation? That sounds plenty definite to me. But if there were any ambiguity, couldn’t the Board have resolved that just like it could any other ambiguity in an executed agreement? What makes a settlement agreement any different?”

My tack at pacification wasn’t working, I could see, so I tried another. It was time for me to start asking the questions. “Don’t you think,” I asked, “that the decision relied on the fact that the one who signed the agreement for the government was the attorney, rather than the Contracting Officer?”11

She was not mollified, and my efforts had the opposite of the intended effect, as she started peppering me with still more questions. I began to have a queasy feeling that she was beginning to lose respect for me, despite my practiced detachment. “Are you telling me that the contracting officer’s attorney doesn’t have authority to sign a settlement agreement? After all, it’s not a procurement contract, and here the contracting officer was present and did not disavow his attorney’s signature.”14 According to the decision, the contracting officer thought he was bound by the amounts stated in the signed agreement.15 Why wasn’t he bound by everything else, including paying those amounts for the contractor’s promise to dismiss the settled claims?16

I began to stagger a response about this being only one decision and not a big deal, but she was not about to let me off the hook. “How is this meant to work?” she demanded in, I must say, an increasingly disrespectful tone. “Does all a contracting officer have to do to give himself an out later is have his lawyer sign a settlement agreement? Or just say he’s going to put it in a modification later? Won’t this discourage parties from settling their claims? Aren’t settlements favored in the law and meant to be encouraged, not discouraged?”

“How about lunch?” I responded.17

Endnotes

1. Luckily, it missed me. The decision is SUFI Network Services, Inc., ASBCA No. 55306, 09-1 BCA ¶ 34,018 (2008), recon. granted in part and denied in part, 09-2 BCA ¶ 34,201 (2009), 10-1 BCA ¶ 34,327 (2009), and 10-1 BCA ¶ 34,415 (2010). It is about 80 pages long, and the single-sided copy thrown at me weighed, I estimate, about 10 pounds. The multiple reconsideration decisions (is three a record?) do not deal with the issue my associate asked me about.

2. 09-1 BCA ¶ 34,018 at 168,219-20.

3. Id. at 168,220.

4. Id.

5. Id.

6. Id. at 168,222.

7. Id. at 168,221-22.


9. 09-1 BCA ¶ 34,018 at 168,219 n.2.

10. For example, the Court of Federal Claims in Robinson Contracting Co. v. United States, 16 Cl. Cr. 674, 681 (1989), aff’d, 895 F.2d 442 (Fed. Cir. 1990), ruled that putting a settlement agreement in a modification is a “mere formality” and the parties’ failure to do so did not make their agreement nonbinding. See also Fed. Elec. Corp., ASBCA No. 24002, 82-2 BCA ¶ 15,862 at 78,656 (1982); Helene Barbier dba Encanto Gifts, ASBCA No. 26418, 82-2 BCA ¶ 15,820 at 78,408 (1982); The AAR Corp., ASBCA No. 16439, 74-1 BCA ¶ 10,602 at 50,267 (1974).

11. 09-1 BCA ¶ 34,018 at 168,221-22.

12. Of course, she is right, and I would only avert my eyes from her glare. See, e.g., Moore’s Cafeteria Servs., Inc., ASBCA No. 28441, 85-3 BCA ¶ 18,187 at 91,327 (1985).

13. 09-1 BCA ¶ 34,018 at 168,221-22.


15. Id at 168,221.

16. Fortunately, she did not ask me to explain the decision’s assertion that the parties did not discuss release when the agreement said that the contractor would disclaim his claims. See id. at 168,220-21.
Public-private entanglements on major infrastructure projects are not new. The real change afoot is the extent to which such entanglements are becoming routine on projects large and small. The challenge of properly characterizing a project as “public” or “private” is thus becoming commonplace, if not easy. Courts have focused on (1) the nature of the ownership, (2) the source of funding, and (3) the use to which a project is placed. This article will examine some of the consequences of mischaracterizing a project as “public” or “private”, provide a checklist of issues to look for, and examine how the courts have approached the problem. The concluding section offers a modest bit of advice.

The Proper Characterization of a Project as “Public” or “Private” Has Broad Implications

When public and private become enmeshed in creative new ways, it is of utmost importance to properly characterize the project as “public” or “private.” The answer to the question “Is it public, or is it not?” has far-reaching consequences. It drastically affects many applicable rules of the game, including: (1) which delivery models may be used, (2) how and when contractors may be selected, (3) contract clauses that are required or permitted, (4) what kinds of claims can be made and when, (5) what remedies may be available or foreclosed, and (6) what penalties might be imposed. The answer to the question may determine the makeup of the workforce and the wages that must be paid. The cost of a project may be substantially affected by the determination. The consequence of getting it wrong can be severe. In cases of uncertainty, properly allocating the risks of what happens if a project is challenged and the assumptions about the nature of a project prove to be incorrect is a matter of great concern to all participants.

For state projects, the implications of “Is it public, or is it not?” are necessarily local. Individual states have different statutory schemes governing public works, and within states different rules apply to different types of public entities and different types of public projects. A project may be treated as “public” for some purposes but not all. Rules change constantly in the to-and-fro of legislative tussles. Nevertheless, certain themes endure, and here is a checklist for some of the main issues to look for when you see a red flag: “Is it public, or is it not?”

The Checklist

Prevailing Wages. Legislatures in every state have adopted prevailing-wage laws (a/k/a the “Little Davis-Bacon Acts”) that require contractors working on state-funded projects such as roads, schools, and public buildings to pay at or above the average wage for the various trades. These figures are typically calculated on a county-by-county basis. Prevailing wages, however, are usually much higher than average wages, with the result that public works construction projects that require prevailing wages are more expensive than an equivalent private project. For example, a February 11, 2009, editorial in West Virginia’s Charleston Daily Globe laments: “According to a report by the conservative Public Policy Foundation of West Virginia, the prevailing wage is now 74 percent higher than average wages in 12 occupations. For example, roofers average $10.22 an hour in this state, according to the report. But the prevailing wage is $24.68.”

Supporters of prevailing-wage laws point out that in addition to higher wages, prevailing-wage laws facilitate apprentice programs, and that a better-paid, better-trained workforce is more efficient and does better quality work. However, on an individual project basis, no one disputes that the price of the work will be higher where prevailing-wage laws apply.

There is a substantial body of case law grappling with the prevailing wage question and “Is it public, or is it not?” in the different states. The cases focus on (1) the nature of the entity awarding a contract, (2) the source of funding...
for a project, and (3) the public or private use to which a project is put. In addition, the wording of the applicable governing prevailing-wage statute is important. For example, in Mobile, Alabama-Pensacola, Florida Building & Construction Trades Council v. Williams, the court held that a county school board was a “contracting authority” within the meaning of the state prevailing-wage act, which defined the term as including “any state institution supported in whole or in part by state funds, authorized to enter into a contract for public work.” The court declared that the board’s construction of a school was covered by the act, observing that, in construing the act, it was compelled to give effect to the act’s intent. Convassing the constitutional and statutory regulation of the state school system, the court found that school boards were state institutions supported by state funds. The Nature of the Entity Awarding the Contract. In Hardin Memorial Hospital, Inc. v. Land, the court—applying the proverbial “is it a duck?” test—held that a remodeling project undertaken by a private corporation operating a county hospital was subject to the prevailing-wage act. The court found the private corporation was a mere alter ego of a county fiscal court, a public entity. The court observed that (1) the public entity could cancel the lease under which the corporation operated the hospital, (2) the public entity held title to the hospital building and the property on which the hospital was located, (3) the lease required the corporation to obtain the public entity’s consent to any material alterations to the hospital, including the remodeling project, (4) any improvements made to the hospital belonged to the county, and (5) the public entity had both the right to remove any director of the corporation at any time without cause and the right to fill all vacant directors’ positions. Viewing the relationship between the public entity and the corporation as a whole, the court concluded it “walked and talked” like a public entity and thus it was a public entity. Source of Project Funding. The nature and source of funding often determines whether prevailing wages will apply. By way of illustration, in People ex rel. Bernardi v. Illinois Community Hospital, a private, not-for-profit hospital entered into a contract for construction of a new canopy over its emergency room entrance. The work was covered by the Illinois prevailing-wage act because the act defined “public body” to include any institution supported in whole or in part by public funds. The hospital’s receipt for three years of monies raised pursuant to a county tax specifically authorized to raise funds for local hospitals was sufficient, the court declared, to render the hospital a public body for purposes of the act. The court noted that the clear language of the act encompassed institutions supported “in part” by public funds. Nature of Use. In addition to the nature of the awarding entity and the source of funds, the applicability of prevailing-wage laws sometimes turns on the public or private nature of the use of a project. For example, in Opportunity Center of Southeastern Illinois, Inc. v. Bernardi, the court found that the remodeling project of a privately-owned rehabilitation center was subject to the state prevailing-wage act. The act defined a “public work” as any fixed work constructed for “public use.” The court observed that the rehabilitation center received over one-half of its income from contracts with the state, and received additional income from tax monies and state grants, and held that the remodeling project was for a “public use” and thus subject to prevailing wage laws.

Risk-Transfer Provisions
In general, parties on private projects are free to structure and allocate risk as they see fit, but there are limits to that proposition. For example, public policy in most states prohibits shifting the burden to indemnify for claims arising out of the sole negligence or willful misconduct of an indemnified party. On public projects, however, legislatures often take a more hands-on approach to regulating the risk allocation between parties. A degree of state paternalism is justified for public works contracts because, in general, public contracts are not negotiated but presented by public entities on a take-it-or-leave-it basis.

This paternalism on public projects is expressed in many ways. For example, in California indemnity clauses designed to relieve a public agency from liability for its active negligence are void and unenforceable, public agencies must assume the risk posed by any undisclosed underground utility lines, local public entities may not require a bidder to assume responsibility for the accuracy of plans or specifications except on design-build projects, public entities may not include provisions in their contracts that would purport to waive a contractor’s damages for delay, local public entities must assume the risk of unforeseen site conditions, and public owners may not shift more than 5 percent of the cost of replacing work damaged or lost due to acts of God to a general contractor. Similar risk-transfer restrictions apply for public works in other states. Therefore, when that “Is it public, or is it not?” red flag goes up, remind yourself to check which risk-shifting provisions may apply, or be taken away, depending on the answer to your question.

Work Force Mandates on State Projects: DBE, WBE, VBE, LBE, etc.
Owners and general contractors on private projects are generally free to contract with whomever they wish. By contrast, the award of public projects by states and local public entities is usually circumscribed by various public policies. Some of these policies are expressed in the form of preferences in awarding contract work to certain classes of citizens in order to achieve social policy goals. Many state and local public works projects are impacted by preferences for employers of local labor, small businesses, historically disadvantaged minority businesses, women-owned businesses, and veteran-owned businesses. Project labor agreements between local public owners and local unions to assure labor tranquility may apply. Other state programs may target the legal status of workers. For example, South
Carolina’s Illegal Immigration Reform Act regulates the documentation that contractors must gather on public works projects to assure they are not employing any illegal immigrants. Although many of these programs have been challenged on constitutional grounds, they persist and are widely used to achieve local social policy goals. When applicable, such programs require experience, and a great deal of administrative effort to implement, by public entities as well as contractors. So when the “Is it public, or is it not?” red flag goes up, consider the groups and organizations that may benefit if the work is a public project, because that is where a challenge to a public-private hybrid project may come from.

Materials and Equipment Procurement Restrictions

The Buy American Act applies when the federal government directly buys products or builds public buildings or works via a procurement covered by the Federal Acquisition Regulation (FAR). The Federal Highway Administration’s (FHWA) “Buy American” statute applies similar restrictions principally to highway and transit-related projects. The American Recovery and Reinvestment Act (ARRA) contains significant direct spending programs, tax incentives, loan guarantees, and bond programs that may become entwined in various public-private hybrid projects. The ARRA’s “Buy American” rules borrow provisions from the existing Buy American statutes. The application of Buy American rules can be tricky, even without the additional layer of “Is it public, or is it not?”

Many states have similar statutes. For instance, California Government Code section 4303 provides:

The governing body of any political subdivision, municipal corporation, or district, and any public officer or person charged with the letting of contracts for (1) the construction, alteration, or repair of public works, or (2) for the purchasing of materials for public use, shall let such contracts only to persons who agree to use or supply only such unmanufactured materials as have been produced in the United States, and only such manufactured materials as have been manufactured in the United States, substantially all from materials produced in the United States.

Other statutes establish preferences for materials and goods manufactured within the state where a project is located.

Private owners are free to select and specify brand names and products or materials as they see fit and deem to be in their best interest. Public owners, by contrast, are generally required to state the needs of the government in a manner that encourages maximum competition and eliminates, as much as possible, restrictive specifications. Sole-source specifications, therefore, are generally prohibited for public projects. So when that “Is it public, or is it not?” red flag goes up, ask whether public funds are involved and what strings might be attached to such public funds, and specifically, whether there are restrictions on procurement of materials that might apply if the answer is, “It’s public!”

Procurement Restrictions: Competitive Bidding, Best Value

Private owners generally may select their contractors freely. By contrast, public owners are severely restricted in how they may select contractors. Typically, federal, as well as state and local entities, are required to award public works projects to the lowest responsive, responsible bidder determined through a sealed bidding process. If mandated procedures are not complied with, the consequences can be severe. Contracts may be deemed void. For example, Texas Local Government Code section 252.061 provides: “If the contract is made without compliance with this chapter, it is void and the performance of the contract, including the payment of any money under the contract, may be enjoined by any property tax paying resident of the municipality.” Case law has reached similar conclusions. Any payments made under a void contract may have to be disgorged.

Even where sealed, competitive bidding is not required, public entities are constrained by requirements designed to make a selection process open and transparent. Public entities may also be subject to debt limits that may be exceeded by entering into a particular contract. The chance of making a mistake in following the prescribed statutory scheme increases as local agencies and individual government officials combine private and public resources for completing projects, and as the private or public nature of a particular project becomes less clear. The moral is that when the “Is it public, or is it not?” red flag is present, consider carefully whether the involvement of the public entity is pursuant to statutory authority, properly exercised, and what the possible consequences might be if the answer is, “No.”

Bonding Requirements

One consequence of characterizing a work as “public” is the bonding requirements that apply. The Miller Act was enacted in 1935 to provide a separate fund for payment of unpaid workers and materialmen on federal projects. Statutory performance bonds and payment bonds are also required on most state and local entity public works projects. Statutory payment bond requirements on the state and local entity level were enacted on the heels of the Miller Act, and they make the award of a state or local entity contract conditional on the contractor’s issuing a separate surety guarantee of its performance and payment obligations. Public entities are mandated to verify the existence and proper rating of bonds, and, when they fail to do so, the public entity, and even individual government officers, may become responsible to pay any claims that would have been covered by a proper payment and materials bond.

Application of the Miller Act or the equivalent state statutes may depend on whether a project involves federal funds, a fact that is not always apparent to claimants and that may not always be apparent to contracting parties. For example, in United States v. Mattingly Bridge Co., a supplier to the general contractor on an interstate highway project cautiously pursued actions in federal court (on the theory that a payment bond was a Miller Act bond) and
in state court (on the theory that it was a state statutory payment bond). The continued intertwining of public and private projects through cooperative federal-state and public-private partnerships makes it difficult to properly characterize payment bonds as common law, Miller Act, or state statutory bonds. Accordingly, when that “Is it public, or is it not?” red flag goes up, be sure to take a closer look at the type of bonding that might be available or required.

**Remedies**

The correct characterization of a project as public or private, state or federal, greatly affects the available remedies in the event of a dispute. A wrong decision in classifying a project can result in a loss of claims due to a failure to give proper notice, failure to ascertain the proper bond rights, failure to recognize the applicable statutes of limitation, misapprehension regarding the proper court or venue, or failure to properly present a claim.

Mechanics’ liens are not available on public works. Therefore, the more byzantine the project funding becomes, and the more the public and private entities become intertwined, the more difficult it is to establish whether mechanic’s lien rights will or will not apply. Proper characterization is important at the contract formation stage for potential claimants so that available security for payment can be identified. If lien rights do not apply, what will claimants look to for payment if the project runs into financial difficulties?

For public works there are frequently statutory schemes regarding the presentation of claims that apply in addition to what may be spelled out in a contract. In California, for example, Government Code section 910 requires claimants to submit government code claims for any contract claims against a public entity before any suit is commenced. Failure to recognize a project as a public work may result in a loss of claims. For example, in W.T. Andrew Co. v. Mid-State Surety Corp., a supplier’s bond claim was disallowed due to a failure to give two notices required by statute, even though the notice given satisfied the notice requirements contained in the bond.

The timing for commencing an action to foreclose on payment bonds or stop notices can be different depending on whether a project is private, public, federal, state, or local. Thus in A.C. Legnetto Construction, Inc. v. Hartford Fire Insurance Co., a subcontractor’s payment bond claim was barred because the bond was deemed a statutory bond and the subcontractor failed to commence its suit within the statutory period. By contrast, in T&R Dragline Service, Inc. v. CNA Insurance Co., the subcontractor mistakenly assumed that bond was a statutory bond, and the claim was barred because, although suit was commenced within the required statutory timeframe, suit was not commenced within the shorter bond period.

Sovereign immunity may come into play. For example, in Florida Department of Environmental Protection v. Contractpoint Florida Parks, LLC, the state agency partnered with a private concessionaire to provide camping cabins and services in state parks pursuant to “Partnership in Parks” program. When the concessionaire sued the state for nonpayment the department asserted a defense of statutory sovereign immunity. In that case the court found that the state had implicitly waived its sovereign immunity, reasoning that if the state were immune from suit the nonmutuality of remedy would render such contracts illusory.

Some states, such as Arkansas, recognize a doctrine of acquired immunity for a contractor that performs its work according to the terms of the contract with a governmental agency, and under the governmental agency’s direct supervision. The theory is that the contractor was merely operating as the agent of a disclosed principal, the public entity, so that the principal’s immunity also applies to the agents. Consistent with classic principal/agency law, however, acquired immunity does not insulate the contractor from its independent liability for negligence or intentional torts. Thus, when it comes time to submit claims or file suit, revisit the question “Is it public, or is it not?” to ensure that proper notice is given, proper procedures are followed, and suit is commenced timely and in the correct court and jurisdiction.

**Is It Public or Is It Not? How Can You Tell?**

As a practical matter, when the ownership, funding, and use of a construction project become entwined between public and private, a project may fall within the scope of some laws that apply to “public works” projects, but not others. Consistent with the discussion on the applicability of prevailing-wage laws, above, courts tend to look at three factors: the nature of a project’s ownership, the source of funds or financing, and the use to which the project will be put. As a general rule, whenever (a) a public entity directly or indirectly owns or will own part or all of a construction project, (b) a public entity disburses funds for, assumes debt on behalf of or any financial risk for, or guarantees a construction project, or (c) a construction project is being built for a public use, these are red flags that the project may be subject to some or all of the laws that typically govern public works projects. Unfortunately, deciding which laws apply requires a statute-by-statute, ordinance-by-ordinance review of all the statutes that may potentially apply to public works within a jurisdiction.

**Project Ownership Is a Red Flag**

Direct or indirect ownership of the project by a public entity may subject the project to some statutes that apply to “public works” projects. A classic area of concern lies in so-called lease-leaseback arrangements. In Department of General Services v. Harmans Associates Limited Partnership, the State of Maryland entered into a “creative financing” arrangement with a developer under which the state leased land to the developer for $1 per year in exchange for the developer’s promise to build on the land and subsequently enter into a sublease-to-own agreement with the state. Even though the state did not enter into a direct contract with the construction contractor, the court concluded, after reviewing the facts and carefully examining the statutory language, that...
the project was “public” for the purposes of the competitive bidding statutes, certain dispute resolution statutes, and statutes requiring contractor-friendly differing-site clauses. Project ownership can be a vexing issue. For example, under Pennsylvania law, projects owned or contracted for by a charter school are covered by the prevailing-wage statute. In *Eden Prairie Comstock & Davis, Inc. v. City of Eden Prairie*, the Supreme Court ruled that the prevailing-wage statutes applied to any project that receives financing by a public agency. However, like the definition of “public works,” which is defined to include any project that receives financing by a public agency, the Labor Code definition of “public works” is restricted to application of the prevailing-wage statutes and should not be used to define “public works” for other purposes. Other statutory schemes, such as California’s lien laws, have their own governing definitions. In Connecticut, laws requiring outreach to minority and small businesses broadly define “public works contract” to include not only construction work actually paid for by the state, but also any construction work involving “grants, loans, insurance, or guarantees” provided by the state. However, like the definition of “public works” that governs application of California’s prevailing-wage laws, Connecticut’s definition of “public works” for outreach programs is limited in scope. Public financing alone may not be sufficient to characterize a project as “public.” *City of Long Beach v. Department of Industrial Relations* illustrates the principle that the “public” character of a project may turn on the statutory language that governs the particular issue in dispute. The case involved the development of an animal shelter on privately-owned land. The city gave a cash grant to a private foundation for preconstruction activities and design services on the project. The state’s department of industrial relations contended that the grant of city funds meant that California’s prevailing-wage statutes should apply to the entire project. However, after a close examination of the statutory language defining “public works” and the statutory language mandating prevailing wages, the California Supreme Court ruled that the prevailing-wage statutes applied only when public funds were paid for “construction” activities, not preconstruction activities. The meaning of “public financing” itself becomes uncertain when public and private entities adopt novel or creative financing schemes to fund construction work. In *Pennsylvania State Building and Construction Trades Council, AFL-CIO v. Prevailing Wage Appeals Board*, the Harrisburg Redevelopment Agency (HRA) offered “tax increment financing” to an insurance company, PNI, as an inducement to build its new headquarters building in the city of Harrisburg. HRA issued $10,500,000 in “tax increment” bonds to be repaid from the increased tax revenue attributable to construction of the new headquarters buildings (the “tax increment”). The insurance company purchased the bonds, and the bond proceeds were held in trust by HRA for payment of a portion of the construction costs of the headquarters project. The scheme required that tax authorities pay the tax increment to HRA to pay off the bonds. Essentially, HRA and the taxing authority allowed the insurance company to fund construction costs through tax rebates on the improved property. As one of the witnesses before the trial court confirmed, the money that paid for the new headquarters essentially moved in a “loop” from the insurance company, to the public entities, and back again to the insurance company. The scheme came at an unexpected cost to PNI. The local unions contended that, as a result of the “tax increment bonds,” the project was a “public work” for the purposes of Pennsylvania’s prevailing-wage laws. The Pennsylvania Supreme Court agreed:

"Based upon the statutory scheme and the foregoing testimony, in our view, the monies paid to the tax authorities as tax increments, which, in turn, are used to pay off the bonds that are used to pay the cost of construction are public funds for purposes of the Wage Act. . . . A tax abatement, where the taxing authority agrees to forego receiving property taxes on a certain property for a certain time."

Pennsylvania State Building thus offers a cautionary moral: Developers who enter into creative financing relationships with public entities do so at their own peril.

**A Project’s End Use May Determine Its Character**

A project’s end use may determine its character in some jurisdictions. For example, in *Comstock & Davis, Inc. v. City of Eden Prairie*, an engineer was allowed to pursue a mechanic’s lien recorded against property owned by a public agency because the public entity that owns the land planned to sell it to a private entity for private commercial use. *L. Suzio Concrete Co. v. New Haven Tobacco, Inc.* is an example in which a supplier erroneously assumed a project was public because it failed to appreciate the significance of the project’s end use. In that case, the Town of East Haven sold property to a private entity for construction of a factory. However, to discourage the purchaser from reselling the property after it took title, and to encourage the purchaser to build the factory and warehouse that the purchaser promised it would build, the town included a number of restrictions on the sale, including one that required the...
purchaser to pay for and build a foundation for its facilities on the land before title would be transferred. The purchaser engaged a contractor that built the foundation but defaulted on payments to its supplier. When the supplier attempted to put a lien on the property, it learned that title was still held by a public entity. Assuming the project to be a “public work,” the supplier refrained from recording a lien on the theory that it could pursue a payment bond remedy. The supplier then learned too late that the public entity never required the developer to post a payment bond, as Connecticut law requires for all public works projects. The supplier sued the officials who failed to require a payment bond for the damages it suffered as a result of the contractor’s default. The court sided with the officials, reasoning that despite the clause requiring that the purchaser build a foundation before title would be transferred, the sales agreement was, at its core, a land sale agreement, not a construction contract. Furthermore, the ultimate use of the project was private, not public. The claimant paid dearly for its erroneous assumption about “Is it public, or is it not?”

Similarly, in Rhode Island Building & Construction Trades Council v. Rhode Island Port Authority and Economic Development Corporation, a project built on public land by a private developer was found to be exempt from Rhode Island’s prevailing-wage statutes because the ultimate use of the project was private, not public. The project involved the construction of an office building complex on land owned by an economic development corporation. The project was funded with $25 million in taxable bonds issued by the economic development corporation. The project would be leased to a private entity for an annual rent of $1 plus the interest and principal due on the bond. The applicable statute provided that prevailing wages would be paid on any “public work” funded through a bond issued by an economic development corporation. Was this project, which was built on public land and funded through a public obligation, a “public” project? The Rhode Island Supreme Court answered “no.” The court reasoned that it should be “guided by the nature of the use to which the ultimate project is to be put rather than the source of the funding.”

In James J. O’Rourke, Inc. v. Industrial National Bank of R.I., a group of claimants made a similar painful mistake about “Is it public, or is it not?” A port authority facilitated the financing for construction of a meatpacking plant by issuing $2.1 million in bonds. To make the issuance of bonds possible, the meat-processing company donated the land to the port authority, and the port authority leased the land back to the company for rental payments that equaled the principal and interest on the bond. Under the terms of the lease, the facility owner could repurchase the land for $1 after the bond was redeemed. The company executed a contract with a general contractor for construction of the plant, but the contract was immediately assigned to the port authority. When the general contractor defaulted on payments to subcontractors during construction of the facility, the subcontractors sued the port authority for damages on the grounds that the port authority failed to demand a payment bond from the general contractor. Even though the port authority owned the land, had issued the bonds, and held the general contract for construction, the Rhode Island Supreme Court ruled that the project was not a public project, finding the facts that the project use was private and its funding was essentially private to be dispositive. The court acknowledged that its decision left the subcontractors without a remedy, but it nevertheless ruled that “this litigation can afford the plaintiffs no relief.”

As the cases discussed above illustrate, owners, developers, contractors, and sureties must closely examine the potential application of “public-works” statutes whenever a public entity is involved in a project, even if the involvement is tangential.

Statutorily Established Public-Private Partnerships
In addition to the foregoing factors, the character of a project may be defined by reference to enabling laws that expressly authorize public-private partnerships. Examples of statutes authorizing such partnerships include California’s statutes relating to the State Court Facilities Construction Fund, the “High Speed Rail” voter-approved initiative, and private toll-road franchises. Other states are passing similar statutes, some of which attempt to provide some guidance regarding whether statutes that ordinarily govern public works contracting apply to the project developed under their purview, and some of which do not. For example, the statutes authorizing the California Judicial Council to pursue alternative project-delivery methods for projects developed under the aegis of the Court Facilities Construction Fund specifically exempt the projects from the Public Contract Code. Even this express guidance is incomplete, however. While the statute expressly excludes projects from the Public Contract Code, it is silent concerning application of other state statutes, such as California Civil Code section 3247, which requires an “original contractor” on a project “awarded” by a “public entity” to post a payment bond. Express statutory exemptions notwithstanding, the prudent developer, public owner, contractor, and potential claimant on any project must closely examine all public works statutes within the jurisdiction for possible application of any of the traditional public works restrictions and rules when dealing with any construction project involving public funds, public owners, or public use.

Conclusion
Public construction is pervasively regulated. Prevailing wages, government code claims, bonding requirements, false claims, public sector financing, sealed bidding, negotiated bidding for “best value,” human rights commissions, affirmative action goals, and “Buy American” and other restrictions on procurement of materials are but a few of the considerations. Nevertheless, through it all contractors and developers must “turn square corners” when dealing with the government. Public entities cannot exceed their statutory authority in entering into or amending a contract; when they attempt to do so, the contract may be void. It is
indeed a lot for all parties involved to keep track of. When public entities deviate from the established rules in order to take advantage of opportunities for greater efficiencies, to bring private sector financing to public projects, or due to preferences for private sector solutions, the answer to the question “Is it public, or is it not?” can become obscured. It is important for all parties, therefore, to recognize the red flags: (1) public ownership is involved, (2) public money is involved, or (3) the project is fundamentally for public use. When one or more red flag is present, careful analysis is essential. Ask yourself, what are the consequences if the project is really public, or really private? Which rules apply, and which do not? What is the payment security if there are no lien rights? Does the public entity have statutory authority to do what it’s doing? What are the consequences if the answer is no? Who bears the risk? <PL>

Endnotes
1. The editorial can be found at http://www.daily-mail.com/Opinion/Editorials/200902100475?page=1&build=each.
3. 331 So. 2d 647 (Ala. 1976).
4. 645 S.W.2d 711 (Ky. App. 1983).
6. For other cases focusing on the nature of the awarding entity, see Western Mich. Univ. Bd. of Control v. State, 455 Mich. 531 (1997); Bridgestone/Firestone v. Hartnett, 175 A.D.2d 495 (N.Y. 1991) (private contract for replacement of roofing material pursuant to 10-year warranty subject to prevailing wage because state’s general contract required the warranty); Stephens & Rankin, Inc. v. Hartnett, 160 A.D.2d 1201 (N.Y. 1990) (Niagara Falls Bridge Commission, established under federal law, was a “commission appointed pursuant to law” within meaning of state prevailing-wage act); Newark Laborers’ Pension – Welfare Funds v. Commercial Union Ins. Co. 126 N.J. Super. 1, 312 A.2d 649 (1973) (state housing authority was an “instrumentality exercising public and governmental functions”); Male v. Pompton Lakes Borough Municipal Utilities Authority, 105 N.J. Super. 348, 252 A.2d 224 (1969) (municipal utilities authority had broad independent power to acquire property, issue bonds, and set rates for its services).
9. 204 Ill. App. 3d 945 (5th Dist. 1990).
12. See, e.g., CAL. CIV. CODE § 2782.
13. CAL. CIV. CODE § 2782(b).
14. CAL. GOV’T CODE § 4215.
15. CAL. PUB. CONT. CODE § 1104.
16. CAL. PUB. CONT. CODE § 7102.
17. CAL. PUB. CONT. CODE § 7104.
18. CAL. PUB. CONT. CODE § 7105.
20. 2008 Act No. 280, added Chapter 14 to Title 8 of the South Carolina Code of Laws; see also, e.g., CAL. PUB. CONT. CODE § 6101.
22. 41 U.S.C. §§ 10a to 10d. Section 10(b) of the act pertains to construction contracts and reads: “Every contract for the construction, alteration, or repair of any public building, or public work in the United States herefore made or hereafter to be made shall contain a provision that in the performance of the work the contractor, subcontractors, material men, or suppliers, shall use only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States. . . .”
23. 23 U.S.C. § 313; see also 23 C.F.R. § 635.410. Essentially, the FHWA “Buy American” statute requires that all steel and/or iron materials that are permanently incorporated into a covered project must be manufactured and fabricated in the United States. Here is the first loophole, however: If a state’s transportation department determines that a bridge structure (even a bridge structure that is to remain in place for years and possibly then moved for a secondary, continued use at another location) is “temporary” rather than permanent in nature, then the Buy American protection does not apply. Then there is a second loophole: Buy American protection does not apply to bridge structures funded totally from state revenue,
even if application of federal funding to another state highway project freed state funds to be applied to build a bridge through loophole number two. The FHWA Buy American statute also does not apply if: (1) the state accepts alternate bids from both foreign and domestic steel mills or fabricators, and the foreign company’s bid is lower than the domestic company’s bid by more than 25 percent, or (2) the use of foreign steel and iron does not exceed 0.1 percent of the total contract value, or $2,500, whichever is greater. See 23 C.F.R. § 635.410(b)(1)(4).

24. See, e.g., Cal. Gov’t Code § 4331: “Price, fitness and quality being equal, any body, officer, or other person charged with the purchase, or permitted or authorized to purchase supplies for the use of the State, or of any of its institutions or offices, or for the use of any county or city shall always prefer supplies grown, manufactured, or produced in the State, and shall next prefer supplies partially manufactured, grown, or produced in the State.”


26. See FAR 36.103(a) (“The contracting officer shall use sealed bid procedures for a construction contract if the conditions in 6.401(a) apply, . . .”). FAR 6.401(a)(1) provides: “Contracting officers shall solicit sealed bids if – (1) Time permits the solicitation, submission, and evaluation of sealed bids; (2) The award shall be made on the basis of price and other price-related factors; (3) It is not necessary to conduct discussions with the responding offerors about their bids; and (4) There is a reasonable expectation of receiving more than one sealed bid.”


28. See, e.g., J&J Contractors/O.T. Davis Constr., A.J. V. v. Idaho Transp. Bd., 118 Idaho 535 (1990) (contract in violation of competitive bidding laws is void, and contractor may not recover in quantum meruit); Miller v. McKinnon, 20 Cal. 2d 83 (1942) (ordinarily, compliance with the terms of a statute requiring the letting of certain contracts by a public agency such as a municipal corporation or county by competitive bidding and the advertising for bids is mandatory with respect to those contracts coming within the terms of the statute; a contract made without compliance with the statute is void and unenforceable as being in excess of the agency’s power).

29. See J&J Contractors: Miller, supra n.28. Compare Or. Rev. Stat. § 279C.470 (contract that fails to comply is to be ratified and contractor paid unless fraud or criminal conduct is involved).


32. See O’Connor, supra note 31.


34. See, e.g., Or. Rev. Stat. § 279C.625 (imposing individual liability upon public officials who fail to obtain statutorily required bonds).


36. See O’Connor, supra note 31.


40. 796 F.2d 133 (3rd Cir. 1986).

41. 986 So. 2d 1260 (Fl. 2008).

42. Id.


44. Id.


46. Id.


48. For another charter school case using creative ownership mechanisms see Mosaica Educ., Inc., supra note 6. A New York court has ruled that charter schools are categorically not subject to New York’s prevailing-wage statutes because charter schools are not identified in the statute as a public entity whose projects are covered by the prevailing-wage statutes. In the Matter of New York Charter School Ass’n v. Comm’r of Labor, 2009 N.Y. App. Div. LEXIS 2452 (2009).


50. Id. (“As used in this chapter . . .”).


53. Id. (“As used in this section and sections 4a-60, 4a-60a, 4a-60g, 4a-62, 46a-56 and 46a-68c to 46a-68k, inclusive: ‘public works contract’ means . . .”).

54. 34 Cal. 4th 942 (2004).

55. 570 Pa. 96 (2002).

56. 557 N.W.2d 213 (Minn. Ct. App. 1997).


58. 700 A.2d 613 (1997).


63. Cal. Gov’t Code § 70374(b).
Public entities frequently request that contractors perform changed work before their contracts are formally amended. For example, many public entities prefer to aggregate smaller changes into one large change order. Immediate changes also may be required due to changed conditions, additional or different requirements imposed by another government entity, or impacts of related projects or contracts. Contractors frequently cooperate with their public entity clients and perform changed work before an amendment is finalized in recognition of the urgency of a need, or the time required to approve an amendment, or both. However, a recent decision by a California Court of Appeal confirms that public contracts may be modified only in strict accordance with their terms, putting such cooperative contractors at risk of “volunteering” their services.

The principle that a public entity must act in strict accordance with its contracting authority to enter into a valid public contract is reflected in numerous California Supreme Court cases over the last 150 years. One case frequently cited for the principle, Miller v. McKinnon, states that “a contract made without compliance with the statute is void and unenforceable as being in excess of the agency’s power.” Another case explains that contracts wholly beyond the powers of a municipality are void. They cannot be ratified; no estoppel to deny their validity can be invoked against the municipality; and ordinarily no recovery in quasi contract can be had for work performed under them. It is also settled that the mode of contracting, as prescribed by the municipal charter, is the measure of the power to contract; and a contract made in disregard of the prescribed mode is unenforceable.

Not only are public entities strictly bound by their contracting authority, but bidders are also presumed to know the extent of that authority. As Miller states, “[p]ersons dealing with the public agency are presumed to know the law with respect to the requirement of competitive bidding and act at their peril.” If competitive bidding laws are disregarded and the contract is void, then the bidder “is a mere volunteer, and suffers only what he ought to have anticipated. If the statute forbids the contract which he has made, he knows it, or ought to know it, before he places his money or services at hazard.”

The above principles recently were applied in P&D Consultants, Inc. v. City of Carlsbad. P&D contracted to provide engineering services to the city. As with many public contracts, P&D’s contract provided that it could be amended only in writing. Throughout contract performance, modifications to the work and price were required, for which P&D would submit a proposed change order and the city would respond. The city’s project manager often orally directed P&D to commence the changed work before the written change order was executed. Based on that conduct, P&D contended that the contract had been modified to allow oral direction to perform added work. Following the final executed change order, P&D sought compensation for what it claimed was additional work, while the city claimed that the work at issue was within the scope of the amended contract. When P&D was not paid, it brought suit against the city.

In reliance on another recent and similar appellate case, Katsura v City of San Buenaventura, the court in P&D Consultants confirmed that P&D could not rely on oral modifications to a contract which, by its terms, was required to be modified in writing. The court explained that “while Katsura does not involve the issue of whether a written modification requirement in a public contract can be modified through the parties’ conduct, its reasoning applies equally to modification through conduct.” In fact, the court noted that modifications by conduct would pose an even greater risk than oral modifications, because modifications through conduct are “more nebulous” and “potentially subject to abuse.” Thus, the city’s prior approval of additional work, which was initially authorized orally, did not eliminate the contractual requirement that amendments be in writing. Consistent with earlier cases, which established that a public entity’s power to contract may be limited by statute, charter, or even the solicitation document, the P&D Consultants court found that the city’s authority to contract was limited by the terms of the contract.

P&D Consultants demonstrates the danger that public contract law poses to contractors that attempt to work cooperatively with their public entity clients. The strict limitations on the authority to contract (or to modify a contract) may conflict with a public entity’s direction to implement changes immediately, before the formal change order process is complete. The risk is particularly great when the parties do not agree whether the work is within the current scope of the contract, as was the case in P&D Consultants. A contractor demanding a written change order may face a contractual requirement to perform even

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in the event of a dispute with the public entity. In that case, the contractor faces the dilemma of either refusing to perform—a possible breach of contract— or performing the work outside the contract’s scope without a right to payment.

In many public contracts, the dilemma is addressed by a disputes clause allowing performance while the responsibility for, and/or price of, the work is being determined. P&S Consultants’ contract lacked such a clause. The express lesson of P&S Consultants is a reminder that public contractors must carefully examine and strictly comply with contractual requirements for modification. Perhaps the more important lesson is that contractors need to be aware of whether their contract contains a clause permitting the contractor to perform during a dispute, and to be paid for extra work directed by the entity. Anticipating changes and disputes, a wise contractor will make every effort to include such a disputes clause, and then strictly comply with it.

Endnotes

2. 20 Cal. 2d 83, 87-88 (1942).
3. Los Angeles Dredging, 210 Cal. at 353; see also Miller, 20 Cal. 2d at 88.
4. Miller, 20 Cal. 2d at 89; see also Amelco Elec., 27 Cal.4th at 234.
5. Amelco Elec., 27 Cal.4th at 235 (quoting Zottman, 20 Cal. at 104-05) (internal quotation marks omitted).
7. Id. at 1336.
8. Id.
9. Id. The city executed five written change orders, the last of which indicated that it was for all services necessary to provide a final and complete set of plans, specifications, and estimates required by the city, and that no further compensation would be requested by P&S. 190 Cal. App. 4th at 1336–37.
10. Id. at 1336.
11. Id. at 1337.
12. Id. at 1337–38.
13. Id. at 1337.
15. 190 Cal. App. 4th at 1340, 1341.
16. Id. at 1341.
17. Id.

IP AND THE RECOVERY ACT

(continued from page 1)

billion, of which $529 billion has already been spent. Generally, the emphasis of the spending was multifaceted: to create jobs, spur economic activity, and invest in long-term growth. Further, the spending itself was supposed to be subjected to unprecedented levels of transparency, both as to awardees to ensure that “imprudent” projects were not funded, as well as to any use of lobbyists in the procurement of the award. Also, spending was not limited to direct federal spending money was also channeled through state and local governments. While the specific mechanisms for creating jobs and providing long-term benefits varied, transparency was to be achieved through an emphasis on heightened reporting of awardee activity and a commitment to ensuring fairness in apportioning funds.

The Act distributed money using three main mechanisms: entitlement spending, tax relief, and by means of contracts, grants, and loans. This paper is focused on direct assistance agreements, such as contracts and grants. These funding efforts are roughly one-third of the $787 billion in stimulus money. Further, while ARRA did emphasize the need for spending on technology, many of these agreements and grants do not require research and development. Thus, while most agreements will include some form of data rights provision relating to technical data generated during the award period—which are included as a matter of normal agency procurement and grant processes—the agreements with significant intellectual property rights represent just a small fraction of the entire stimulus contained in the Act.

Contract and Grant Guidance

In order to provide guidance for contracts and grants, the Office of Management and Budget (OMB) provided the Updated Implementation Guidance for the American Recovery and Reinvestment Act of 2009 (April 3, 2009) (OMB Guidance). The White House has directly issued a “Memorandum for the Heads of Executive Departments and Agencies Re: Ensuring Responsible Spending of Recovery Act Funds” (March 20, 2009). In combination, the agencies were directed to award grants, contracts, and loans based upon three main factors:

1. Transparent and merit-based decision making;
2. An identifiable, long-term public benefit, such as through the creation of jobs, investment in technology, and investment in infrastructure; and
3. Assistance targeted towards achieving other federal goals, such as ensuring equal employment opportunity, encouraging small business growth, and encouraging the use of sound labor practices. While the agencies were generally charged with providing direct assistance in accordance with their normal practices, the ARRA did impose unusual limitations and burdens on the process. Transparency. In one of the highly visible results of the
Act, the federal government was directed to create and maintain a single website: Recovery.gov. Recovery.gov provides extensive details on stimulus spending, the location of the spending, the awardees, and the amounts yet to be spent. The website further provides this information using a map, whereby users can graphically see the city and state in which an award is made, the type of award (i.e., loan, grant, contract), and the amount for each awardee and type of award. Moreover, the map provides an estimate of the jobs created from the award, which is provided by the awardee according to the methodology outlined in the OMB Guidance. Each agency provides its own ARRA website that provides the raw data, but the raw data from each agency is synthesized into the map shown on Recovery.gov. Through this website, taxpayers are able to track, with remarkable precision, the details of the stimulus funds being spent.

According to Recovery.gov, as of December 7, 2010, recipients reported that there were 48,437 contracts awarded for an aggregate sum of $38.3 billion in spending resulting in approximately 61,768 jobs. There were 189,697 grants awarded for an aggregate sum of $207.4 billion awarded, which resulted in approximately 609,673 jobs. Thus, grants were the preferred way to award ARRA funds and also resulted in substantially more job creation than contracts.

**Merit-based Decisions.** In order to ensure that an award is both transparent and merit-based, the OMB Guidance generally required awards to result from full and open competition. Unlike traditional grants and contracts, however, the awards of which are based upon technical merit and cost, ARRA awards were further supposed to account for the number of jobs being created. Thus, the award of an agreement was not predicated solely upon traditional measures of worth, but also needed to account for anticipated employment.

**New Clauses.** In order to ensure that ARRA funds are spent consistent with the Act’s statutory and regulatory provisions, each award has special requirements. Certain of these requirements are designed to ensure that the awardee provides the raw data needed to fuel Recovery.gov, as well as to meet other priorities. These clauses include reporting requirements such as detailed disclosure of executive compensation, compliance with Buy America provisions for construction materials, and whistleblower protections with regard to reporting violations of the reporting clauses of the agreements as well as for reporting fraud in the awards themselves.

For assistance agreements in the form of grants and cooperative agreements, 2 C.F.R. section 176 and the OMB Guidance require the use of standard terms and conditions. The additions in the regulation require the inclusion of elements related to ensuring compliance with wage rates and Buy America provisions, and data reporting. As such, the intellectual property rights regime, and the remaining terms and conditions, were entirely directed by OMB Circulars A-102 and A-110.

As most agencies generally follow the Competition in Contracting Act, the requirement that contracts be awarded in a transparent and merit-based manner was deemed met if competition was achieved under normal processes. Thus, the contract award itself would have been familiar to any government contractor, with the exception that the awarded contract would include new clauses, such as those directed by Federal Acquisition Regulation (FAR) sections 3.907-7, 4.1502, 52.203-15 (Whistleblower Protections), and 52.204-11 (Reporting). There was also the unique evaluation factor relating to anticipated jobs resulting from the award. Thus, while much of the process should have been familiar, the heightened reporting requirements would not have been.

**Traditional Agency Rules Apply.** Outside of these special clauses, there was little detail on how the awards were to be made and, more importantly, on what clauses were to be used in the award. In this sense, with only the minor addition of a special reporting clause, each agency was directed to use existing agency procedures for the award.

At the same time, the aims of ARRA are to invest in new technologies and grow small businesses, despite not giving more flexibility in how the agencies interact with nontraditional contractors and grantees to ensure the maximum value for the investment. The discussion below focuses on how agencies, and specifically the Environmental Protection Agency (EPA) and the Department of Energy (DOE), were able to use their existing grant and procurement frameworks to achieve these goals within the tight time frame of the fiscal year.

**Agency Implementation of IP in Recovery Act Grants: EPA’s Experience.**

Because the EPA lacks any other mechanism for modifying its standard grant and contract requirements, ARRA funding did not affect EPA’s intellectual property (IP) provisions. Rights in inventions made by an EPA grantee are governed by 35 U.S.C. §§ 200-207 (the Bayh-Dole Act) and its implementing regulations at 37 C.F.R. Part 401. Under these authorities, the grantee may retain title to any “subject invention,” which is one that is “conceived or first actually reduced to practice in the performance of the [grant].” To preserve this right, the grantee must, in a timely manner, notify the agency of its decision to retain title to the invention, file patent applications before any statutory deadline, and take other steps prescribed in the statute and the regulations. The statute reserves for the agency “a nonexclusive, non-transferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world.”

A grantee retains copyright to any work developed under the grant. Government-wide grant regulations reserve to the agency “a royalty-free, nonexclusive and irrevocable right to reproduce, publish, or otherwise use the work for federal purposes, and authorize others to do so.” Unlike in the case of procurement contracts, the license reserved to the agency by the grant regulations does not make a distinction to account for the type of copyrighted work developed under the grant (e.g., document or software), or the source of other funding in the development
of the work. The regulations also grant the federal government unfettered use of data produced by a grantee, and the right to authorize others to use the data “for Federal purposes.” These requirements did not change in the face of ARRA funding.

**Agency Implementation of IP in Recovery Act Using ARPA-E Assistance Agreements**

ARRA was specifically designed to rescue a failing economy, to put the country on a path to recovery by putting Americans back to work, and to reinvest in the country’s long-term economic future. To that end, ARRA had as one of its five goals to provide investments needed to increase economic efficiency by spurring technological advances in science and health. The Department of Energy Advance Research Projects Agency – Energy (ARPA-E) played a key role in this endeavor, awarding nearly $400 million in ARRA funds to support research and development of potentially game-changing energy technologies, such as advanced battery, wind turbine, building energy efficiency, and carbon capture technologies. Indeed, the results accomplished by ARPA-E in the context of ARRA spending are often highlighted as one of the successes of the Act itself. Congress incorporated this vision into ARPA-E’s governing statute:

The goals of ARPA-E shall be (A) to enhance the economic and energy security of the United States through the development of energy technologies that result in (i) reductions of imports of energy from foreign sources; (ii) reductions of energy-related emissions, including greenhouse gases; and (iii) improvement in the energy efficiency of all economic sectors; and (B) to ensure that the United States maintains a technological lead in developing and deploying advanced energy technologies.

Energy Secretary Steven Chu has reiterated this vision: “ARPA-E is a crucial part of the new effort by the U.S. to spur the next Industrial Revolution in clean energy technologies, creating thousands of new jobs and helping cut carbon pollution.”

**ARPA-E Awards**

During Fiscal Year 2010, ARPA-E issued awards under three rounds of funding opportunity announcements (FOAs) focusing on specific technological areas such as grid scale energy storage, building energy efficiency, carbon capture, batteries, and innovative alternative fuels. While advancing potentially pioneering technologies is a primary focus, it is not ARPA-E’s only goal. Pursuant to its statutory mandate, as well as the overarching goal of ARRA to create domestic jobs, ARPA-E also sought through its awards to increase domestic manufacturing of advanced energy technologies.

All but three of the ARPA-E awards were cooperative agreements, governed by the DOE financial assistance regulations at 10 C.F.R. Part 600. The remaining three awards were technology investment agreements (TIAs) under 10 C.F.R. Part 603. In both types of agreements, ARPA-E placed special emphasis on US manufacture, requiring “U.S. competitiveness” provisions which the recipients agreed to substantial domestic manufacture of new technologies embodying IP developed under the awards. Recipients also needed to demonstrate that a substantial portion of the research (e.g., 90 percent) under the award would be performed in the United States.

In order to follow the progress of their awards, ARPA-E also may pursue its right to require downstream utilization reports for commercialization of new inventions, as provided in the standard patent rights clause. Given that this provision is rarely utilized in normal government procurements, contractors and grantees will need to ensure that they follow these rules or risk the government’s taking steps to ensure this commercialization.

**US Competitiveness**

While traditional contracts and grants merely require preferences for domestic manufacture with regard to licenses, as discussed below, small business recipients or subrecipients under ARPA-E awards were required to agree to substantially manufacture in the United States any new technologies embodying subject inventions for any use or sale in the United States. This provision is binding on any assignee, licensee (both exclusive and nonexclusive), or any party acquiring a controlling interest in the recipient. ARPA-E placed a similar requirement on federally owned, contractor-operated laboratories receiving ARPA-E funds, such as DOE’s Lawrence Berkeley National Laboratory. Since the laboratories generally do not engage in commercial manufacture, in practice the provisions only apply to the laboratories’ license agreements.

Large business recipients or subrecipients under ARPA-E awards were subject to an even stricter requirement. Large businesses were required to agree to substantial manufacture in the United States for use or sale anywhere in the world. As with small businesses, the provision is binding on any assignee, licensee, or any party acquiring a controlling interest in the recipient.

A recipient may request that the “U.S. competitiveness” provision be waived or relaxed either at the time of award or at a later date. The recipient must make a showing that domestic manufacture is not commercially feasible, as well as a showing that the recipient can provide an alternate benefit to the US economy, such as other investments...
consistent with ARPA-E’s mission. Examples of the latter may include increased manufacture of related products in the United States, or expansion of other facilities in the United States, such as research and development (R&D) facilities or related manufacturing facilities.

**Utilization Reports**

Pursuant to the standard patent rights clause under the Bayh-Dole Act, the funding agency may request periodic utilization reports on progress made in commercializing subject inventions. Most federal agencies use patent rights clauses that have the same provision. The patent clause in the DOE financial assistance regulations provides in relevant part:

> The Recipient agrees to submit on request periodic reports no more frequently than annually on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by the Recipient or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the Recipient and such other data and information as DOE may reasonably specify. As noted, the extent to which federal agencies exercise the right to request utilization reports is uncertain; in some instances contractors and grantees may not have to provide such reports. However, given the combined emphasis on advancing technologies and creating domestic jobs under ARPA-E awards, recipients of ARPA-E awards should expect to receive requests for periodic utilization reports. This is the case for all recipients, including large and small businesses, nonprofit organizations, and universities.

**Performance of the Scope of Work in the United States**

The FOAs contained specific provisions requiring that the R&D work under the awards be performed in the United States. For example, under DE-FOA-0000290, a foreign-owned entity was permitted to participate as a recipient or subrecipient if it was incorporated within the United States. That FOA also required that a minimum of 90 percent of the work, as defined by total project costs, would be performed on US soil, which includes US territories.

**Technology Investment Agreements**

Under 42 U.S.C. § 7256(g), the secretary of energy has the authority to enter into transactions other than the existing statutorily defined instruments (i.e., contracts, cooperative agreements, and grants). The purposes of this “other transactions” authority are to reduce barriers that prevent some for-profit firms from participating in DOE’s research, development, and demonstration (RD&D) programs and to broaden the technology base available to meet DOE mission requirements. DOE’s implementing regulations that provide uniform policies and procedures for these TIAs can be found at 10 C.F.R. Part 603.

TIAs are intended to encourage wider participation by private corporations in innovative energy R&D for commercialization and energy security through utilization of a more commercial-like, flexible instrument. However, a TIA may only be used in appropriate circumstances. Before authorizing use of a TIA, a DOE contracting officer must consider the following minimum requirements, set out in 10 C.F.R. Part 603:

- **Nature of the project**
  - Stimulate or support RD&D
  - Doesn’t duplicate current RD&D effort
  - Use of contract, grant, or cooperative agreement is not feasible

- **Type of recipient**
  - For-profit firm must be involved in performance of the award or commercial application of the results
  - May be a consortium or teaming arrangement, which may include National Laboratories, universities, etc.

- **Recipient commitment and cost sharing**
  - To maximum extent practicable, non-federal parties provide at least 50 percent of the resources

There are two kinds of TIAs. The first is a flexible cooperative agreement, which provides flexible treatment of provisions other than the IP provisions required by the Bayh-Dole Act and DOE patent and technical data statutes. Generally speaking, the following are examples of non-IP contractual matters that may be addressed with more flexibility in a TIA than in the normal DOE financial assistance agreement, as appropriate:

- **Recipient’s Financial Management Systems**: a TIA may use cost accounting systems that have been established by the commercial firm rather than the government’s cost accounting system as long as the system is within generally accepted accounting practices and can be supported by business records.

- **Cost Principles**: a TIA may not have to require the recipient to use federal cost principles in determining cost share. Rather, a reasonable, prudent, business practice standard (for R&D) can be used to determine the expenditures for cost-sharing purposes.

- **Audits**: a TIA can rely on the periodic audit results from the for-profit recipient’s independent public accountant rather than the DCAA, as long as the federal government auditors have access to records.

- **Payment Flexibility**: payment methods can be based on payable milestones of observable technical progress (not limited to reimbursement or advance payment methods).

The second kind of TIA provides flexibility for certain IP terms and conditions. Examples of IP provisions that are normally statutorily required but that may be handled more flexibly in a TIA include:

- **The definition of “subject invention”** (i.e., new inventions made under the TIA).
• The retention by the government of a royalty-free license in new inventions made under the TIA.
• The disposition of title to new inventions made under the TIA between primes, subawardees, or consortium members.
• The scope of march-in rights retained by the government in subject inventions under the TIA.
• The rights of the government in technical data first produced under the TIA.
• When negotiating TIAs, DOE typically does not start with a "clean slate," but rather uses standard financial assistance terms and conditions as a starting point. The general approach is that any concession on terms must be justified, e.g., should be met with a quid pro quo elsewhere.

**ARPA-E TIAs**
ARPA-E awarded three TIAs, each modifying IP terms and conditions using ARRA funds. Two of the TIAs modified the provisions for march-in rights and the government purpose license. In both cases, the recipients wanted to add an option under which they could return the amount of award (plus interest) to buy back the government license and march-in rights for subject inventions. Where the recipients do not exercise the buyout option, all of the standard IP terms and conditions of a cooperative agreement remain in place and the agreement looks like a normal cooperative agreement. Where the option is exercised, the government still benefits in that: (1) the government gets its money back, with interest, which can be used to fund future awards; and (2) the recipient develops new IP that is subject to a US manufacture provision, thus benefiting the technology base for clean technologies, as well as the US economy.

The other TIA involved research directed toward synthesizing iso-butanol from macroalgae. Iso-butanol can be synthesized from many different feedstocks, but the focus of the ARPA-E award was in matching macroalgae with iso-butanol. As a result, the terms of the TIA narrowed the reserved government rights in subject inventions so as to apply to that particular field of use. Thus, TIAs represent a mechanism by which DOE and ARPA-E are able to craft ARRA awards with flexible intellectual property terms, as the initial plan envisioned the use of TIAs in such awards.

**Private Sector Experiences in Negotiating IP in Recovery Act Grants and Assistance Agreement with DOE**
The federal government provides substantial research and product development funds through federal grants under ARRA. These federal funds, however, do come with strings attached, including providing the government with some IP rights, including rights in patents, technical data, and software. Judicious planning and following proper IP protection procedures can possibly minimize, but not eliminate, these government rights.

There are a number of ways in which a company can accept federal funding from DOE for R&D activities, including procurement contracts, grants, and cooperative agreements (that are cost-sharing grants). The latter two are collectively referred to as financial assistance agreements. This portion of the article focuses on DOE grants awarded with ARRA funds and on TIAs.

ARRA did not create new IP rules for federal grants. Therefore, a grantee needed to comply with the agency's existing grant IP regulations when accepting a grant using ARRA funds, which are generally described below.

**Patent Rights**

**Government's Rights in Subject Inventions.** With respect to the government's rights in subject inventions, federal grants typically incorporate provisions of the Bayh-Dole Act. However, the rules are a bit different for grants awarded by DOE. Under DOE grants, small businesses and nonprofit organizations can obtain title to a subject invention. For large businesses, by statute, DOE retains title to a subject invention unless title is waived. There are a number of avenues available for a large business to obtain a waiver of title. First, it can ask DOE to waive title to an invention either on an individual basis or on an advance waiver basis for an entire grant. Second, certain DOE grant programs, such as ARPA-E, permit large businesses to take title to subject inventions through a class waiver.

In our experience, federal agencies do not (and often cannot outside of a CRADA or "other transaction") modify the basic rights in a subject invention enjoyed by the government under the Bayh-Dole Act. Thus, the government will generally obtain a government purpose license in any subject invention unless, for some reason, the government obtains or takes title.

**Potential Patent Strategies for Companies.** In accepting a federal grant, a company should assume that, at a minimum, the government will obtain a government purpose license. If a company is close to developing an invention, it may well make sense to complete that development activity and to file a patent application (provisional or non-provisional) before starting work under a federal grant. A company should consider whether the activities in a proposed statement of work (SOW) are likely to result in "subject invention(s)" and, if so, consider the potential impact of the subject invention(s) on the company's future business plans. A company also should consider whether the activities in the SOW may be modified to avoid working in active, privately funded R&D areas of substantial importance to the company's future business prospects. And, of course, companies must consider that, in certain circumstances, accepting a federal grant may not be their best course of action.

A company should implement reasonable procedures to ensure that it protects its rights in IP developed at private expense, and thus should train relevant technical personnel regarding the federal government's grant IP rules. It also should ensure that its technical personnel are aware of the company's different R&D projects, and follow accurate timekeeping practices. This is important in protecting patent rights as well as rights in technical data and computer software.
Domestic Preference Provision. The federal grant patent rights clause generally includes a provision known as the “domestic preference” provision. Under this provision, the grant recipient agrees that neither the recipient nor an assignee will grant an exclusive right to use or sell any subject invention in the United States unless such person agrees that products embodying the subject invention will be manufactured substantially in the United States.38

A company can potentially obtain a waiver of this preference requirement upon a showing by the recipient or its assignee that:

1. reasonable, but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States; or
2. domestic manufacture is not commercially feasible.39

Potential Domestic Preference Strategies for Companies. In our experience, government agencies are willing to waive the preference requirement provided that the grantee can satisfy one of the two tests discussed in the preceding section. In addition, they are willing to consider limited amendments to the preference language provided that the company can demonstrate a compelling need.

A significant issue is whether, given today’s global economy, the government should eliminate this requirement. Removal of this requirement conceivably may encourage grant applications from more companies. On the other hand, these are US dollars and one can argue that US funds should be used to create or retain US manufacturing jobs.

March-In Rights. Under specific circumstances, the government can require a recipient, an assignee, or an exclusive licensee to grant a license in a field of use to a responsible applicant on reasonable terms where the recipient (or assignee/licensee) has not taken steps to achieve practical application of the subject invention in that field of use. There also are a few other limited circumstances in which the government can exercise its march-in rights.

To our knowledge, the government has not exercised these rights.40 Nevertheless, prudence suggests that a recipient should achieve practical application in fields of use of importance to the company and not risk the government’s exercise of its march-in rights.

Data Rights

“Data” is recorded information regardless of form or the media on which it may be recorded. Data can be either

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2011-2012 Nominating Committee Appointed

The Section’s Nominating Committee is now accepting nominations and expressions of interest for leadership positions for 2011–2012. The open positions are:

- Secretary
- Budget and Finance Officer (term expiring August 2014)
- First Section Delegate (term expiring August 2014)
- Four Council members (term expiring August 2014)
- Young Lawyer Council member (under 36 years of age or admitted to practice less than five years) (term expiring August 2013)

If you’ve been active in the Section over the years by frequently attending Council meetings and educational programs, if you’ve been the chair, cochair, or vice-chair of one or more committees and/or if you’ve been a contributor to the Section’s journal or newsletter, please consider submitting your name for consideration for one of the officer or Council positions for 2011–2012. A “strong preference” will be given to nominees for Council member positions who have not previously been elected to the Section Council.

If you have a strong history of service to the Section, please consider enhancing your involvement as an officer or Council member by submitting your name to the Nominating Committee along with a list of your Section activities. Please note that the Nominating Committee must submit its report not later than June 10, 2011, so send in your letter of interest by May 6 if you would like to be considered.

The Section office maintains a profile of all active Section members. If you wish to receive a copy of your profile, please contact Marilyn Neforas at marilyn.neforas @american.bar.org, and she’ll be happy to provide it.

The following Section members have been appointed as the Nominating Committee:

Karen L. Manos, Chair
Phone: 202-955-8536
Email: kmanos@gibsondunn.com

James A. (“Ty”) Hughes
Phone: 703-693-7284
Email: ty@tyhughes.net

Annejanette Heckman Pickens
Phone: 703-456-2396
Email: annejanette.pickens@hp.com

Any Section member wishing to make a recommendation to the Nominating Committee is encouraged to contact directly any of the above-named committee members.

The Nominating Committee will report to the Section at the Annual Business Meeting on Saturday, August 6, 2011, at 2 p.m., at the Sheraton Centre in Toronto, Ontario, Canada, where the Section membership will vote on the nominees. The committee’s report will also be available on the Section website on or before June 6, 2011.

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computer software or technical data.41 “Data rights” generally refers to a license to the government of rights in data that the recipient delivers to the government. This delivered data can be developed at government expense or at private expense.

**Limited Rights and Restricted Rights.** The government’s rights can range from limited rights (for technical data) or restricted rights (for software), to unlimited rights. The rights obtained by the government generally are based on (a) the funding source, and (b) whether the company followed proper procedures to protect technical data or computer software developed at private expense that is delivered to the government under an agreement.

“Limited rights” and “restricted rights” refer to technical data and computer software, respectively, that are developed exclusively at private expense. These are the best types of rights from the recipient’s perspective, in that they afford the government the fewest rights in the technical data or computer software.

Generally, under a limited rights license, technical data may be reproduced and used by the government with the limitation that the data will not be used for purposes of manufacture or disclosed outside the government. The government may, however, disclose technical data outside the government in the following circumstances:

1. Use by support services contractors within the scope of their contracts;
2. Disclosure for evaluation purposes under the restriction that data be retained in confidence and not be further disclosed;
3. Disclosure to other recipients participating in the same grant program under the restriction that data be retained in confidence and not be further disclosed;
4. Use by the government or others on its behalf for emergency repair or overhaul work under the restriction that the technical data be retained in confidence and not be further disclosed; or
5. Release to a foreign government, as the interests of the United States may require, for information or evaluation, or for emergency repair or overhaul work by such government.42

Under a restricted rights license, computer software may not be used, reproduced, or disclosed by the government, except that the software may be:

1. Used or copied for use with the computers for which it was acquired;
2. Used or copied for use in a backup computer if the computer for which it was acquired becomes inoperative;
3. Reproduced for backup purposes;
4. Modified or combined with other computer software, provided that the modified or adapted portions are made subject to the same restricted rights;
5. Disclosed to and reproduced for use by support service recipients provided the government makes such disclosure or reproduction subject to the same restricted rights; or
6. Used or copied for use in a replacement computer.43

If technical data is developed at private expense, the grant rules generally provide that such data should not be delivered to the government. Sometimes, however, such delivery is unavoidable (e.g., the data is included in a technical report).

Some agencies require that the recipient identify in advance any limited rights data or restricted rights computer software that are privately funded and may be delivered. The parties then can agree to delivery of such data or software with appropriate legends and protect the data or software under an alternate clause. The recipient may sometimes identify the data withheld and provide form, fit, and function data instead.44

**Protected Rights Data.** In the ARPA-E program, the recipient may, with DOE’s approval, claim as “protected rights data” any data first produced in the performance of the award that would have been a trade secret if developed at private expense.45 Protected rights data may not be published, disseminated, or disclosed to others outside the government for a limited period of time (up to five years) after development of the information, unless expressly written authorization is obtained from the recipient. After the term of protection, the government takes unlimited rights in protected data.

While it might be desirable, the limited data protection implemented under DOE regulations is only available through special statutory authority, such as the Energy Policy Act of 2005, and may not be extended beyond what is statutorily provided.

To enjoy protection, the company must deliver data with the protected rights notice affixed to the data. The company should use the same language set forth in the protected rights notice in the grant agreement. (The text in the instrument can vary slightly from the clause.) If the notice is not in the agreement, then we recommend that a recipient use the language found in the clause set forth at 10 C.F.R. Part 600, Subpart D, Appendix A.

Protected rights represents an excellent category of data rights for data first produced in the performance of an award. A company should carefully review all data before it is delivered to the government and determine whether any data can be claimed as protected rights data. If data falls within the definition of protected rights data, then the company should affix the “Proprietary Rights Notice” (legend) prior to delivery.

**Strict Compliance Applies to Data Marking Obligations.** Failure to properly identify and mark data delivered under a grant or cooperative agreement permits the government to claim unlimited rights in the data. In fact, failure to properly mark data with the proper notice means the data “shall be deemed to have been furnished with unlimited rights.”46

**IP Issues Related to Technology Investment Agreements**

As discussed above, there are two types of TIAs. One is a cooperative agreement with more flexible provisions tailored for commercial firms, but with IP provisions in full
compliance with the agency’s IP statutes and regulations. The other type is best termed an “other transaction” (OT), in which intellectual property provisions can vary from the agency’s IP statutes and regulations. Under the cooperative agreement type of TIA, the parties can achieve the relaxation of certain non-IP grant requirements, including a relaxation in financial management system requirements, access to records requirements, and in other non-IP provisions. Under the OT type of TIA, the grants officer must determine that there is a unique, exceptional need to vary from the standard IP requirements.

There are a number of IP rights that a company can seek to negotiate under the OT type of TIA. For example, it can seek to narrow the scope of the government purpose license, modify the government’s march-in rights, or narrow the definition of “subject invention.” Another possibility is to seek removal of the domestic preference provision in the area of patents. However, while given the flexibility to do so, it is not our experience that the government is going to vary from the standard Bayh-Dole licensing scheme without good reason.

Another possibility is to change the default data rights categories. For instance, in a TIA, a party can narrow the scope of the unlimited rights license to something similar to a government purpose rights, a data rights category used by the Department of Defense. Thus, in a TIA negotiation, as compared to the negotiation of a grant or cooperative agreement, awardees are able to negotiate variances from the standard IP provisions used in a grant or cooperative agreement, leading to increased flexibility.

Further, ARPA-E FOAs typically provide that an applicant may request a TIA if the applicant believes that using a TIA “could benefit the objectives of the program and can document these benefits.” Thus, a company interested in pursuing a TIA should emphasize the benefits that a TIA would create in terms of overall program objectives. A company also can emphasize a high cost-sharing commitment on the part of company should it become a recipient. Typically, a TIA will require at least a 50 percent cost share on the part of the private party. A company also might point to the high cost to date of development of the technology at private expense, as well as the need for modified IP provisions that are otherwise unavailable using a typical cooperative agreement or grant.

Conclusion
While the American Reinvestment and Recovery Act was promoted as providing improved funding sources to grow small businesses and invest in new technologies, a possible unintended consequence of transparency and merit-based decision making may be to deny federal agencies the necessary flexibility to achieve these results. Some successes have occurred, such as those set forth in the report of the Office of the Vice President, The Recovery Act: Transforming the American Economy Through Innovation (August 2010). At the same time, it is noteworthy that existing contracts became favorite vehicles for stimulus spending. According to the Government Accountability Office (GAO), 68 percent of the $26 billion in ARRA contract obligations was applied to existing contracts. GAO found that the temptation to award ARRA funds to existing contractors was hard to ignore, given the normal 10–14 months to compete new contracts, which might easily result in the expiration of the funds before a new contract could be properly competed. Thus, for purposes of expediency, contracting officers increasingly turned to modifying existing contracts, which had already been found compliant with the Competition in Contracting Act.

As a corollary, therefore, this genuine need for expediency has hindered the achievement of the objective of having ARRA funds reach a more diverse awardee pool. Also, while the Act seemed to provide a tempting source of funds for nontraditional government contractors, it appears that many nontraditional entities were not enticed by ARRA funding because the complexity of grant applications and processes was not worth the benefit of receiving a grant. Indeed, a good example of this can be found in the grants for weatherization—hampered by the multitude of requirements needed for award. Thus, while agencies, such as DOE, with flexibility and the drive to fund new technologies were able to find innovative ways to use their stimulus funding within their existing programs, it is debatable whether ARRA required money to be awarded too quickly. One also may ask whether the award process did not allow sufficient IP flexibility to attract the nontraditional contractors and grantees needed to create the long-term job growth and technology investment that were the fundamental objectives of the act.

Indeed, the failure to encourage such fundamental flexibility appears to ignore the disproportionate need of small businesses for intellectual property, as well as the fact that in the realm of entrepreneurship, intellectual property in the form of patents is seen as a job creator. Accordingly, given what we now know about how economic stimulus was (or wasn’t) effected under ARRA, as calls for a second round of stimulus are made, perhaps those calls should include a search for the means of ensuring that agencies have the authority to be flexible in their use of intellectual property to achieve the technical advances and job creation goals that will benefit our nation’s economy in the long term.

Endnotes
1. Neil Irwin & Nia-Malika Henderson, Recession Is Officially Over, But Anxiety Lingers, Wash. Post, Sept. 21, 2010, at A18 (discussing findings of the National Bureau of Economic Research as to when the “Great Recession” was officially over).
2. ARRA, § 3 (2009).
5. U.S. Gov’t Accountability Office, GAO-10-999, Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States’ and Localities’ Use of Funds (2010).
6. White House, Memorandum for the Heads of Executive Departments and Agencies Re: Ensuring Responsible Spending of Recovery Act Funds (Mar. 20, 2010); Office of Mgmt. & Bud-
likely required few intellectual property clauses.

10. Id. at § 2 & App. 2.

11. Id. at §§ 5.1, 6.1, 7.1.

12. Id. at § 1.6.

13. Id. at § 1.5. For state reporting, see Richard W. Oehler et al., The American Recovery and Reinvestment Act: Enhanced Oversight and Transparency, presented at the ABA Section of Public Contract Law 5th Annual State and Local Procurement Symposium (2010).


15. 2 C.F.R. § 176.190 (2010).


19. It is instructive as to just how involved reporting becomes when looking at the requirements of the new clause at FAR 52.204-11(d). The contractor is required to use an online reporting tool available at www.FederalReporting.gov. The report itself needs to include the government contract and order number; the amount of Recovery Act funds invoiced by the contractor for the reporting period; a list of all significant services performed or supplies delivered; the program or project title; a description of the overall purpose and expected outcomes or results of the contract; an assessment of the contractor’s progress towards completion; a narrative description of the employment impact of work funded by the Recovery Act; and subcontracting and subcontracting information. In an unusual provision, for large government contractors, the clause also requires the reporting of the names and total compensation of the five most highly compensated officers, although this requirement is waived where the same information is provided in an applicable Securities & Exchange Commission filing. Thus, as compared to normal reports provided under a contract, Recovery Act contracts are highly invasive.


22. 40 C.F.R. § 30.36(a) (2010).

23. 40 C.F.R. § 30.36(c) (2010).


34. The text of the TIAs can be found at http://arpa-e.energy.gov/FundingAgreements/TechnologyInvestmentAgreementsTIA.aspx (last visited Oct. 3, 2010).


36. Also available from many agencies are CRADAs, Work for Others Agreements, and Other Transactions, although their use in Recovery Act awards (if any) is not discussed herein.


41. FAR 52.227-14(a).


44. See, e.g., 10 C.F.R. § 600D, App. A, (h).

45. See, e.g., 10 C.F.R. § 600D, App. A, (g).


47. See, e.g., DOD FAR Supp. § 252.227-7013(a)(12).


CHAIR’S COLUMN
(continued from page 2)

erved by another process at a separate forum. Just to make it interesting, California also has an “Alternative Protest Pilot Project” for certain procurements that has a third set of procedures.

Unlike the Government Accountability Office (GAO) at the federal level, the decisions of each of the forums are generally not published in readily accessible forms. In addition, there are a limited number of court decisions.

Local jurisdictions tend to have less formal proceedings. Frequently, the only place their bid protest procedures are published is in the solicitation documents. Perhaps the most unusual California bid protest I have been asked to handle was one involving the public defender for Contra
Costa County. That office had lost a contract to provide representation to juveniles in dependency hearings. The contract was awarded by the court system and we were protesting to the chief judge of the county who had also been on the selection panel. Needless to say, it was a very unusual situation of a kind that one is not likely to find at the federal level.

The Claims Process
California has claims processes described in several different areas of the Public Contract Code for state agencies, but none of them is quite as formal as the Contract Disputes Act (CDA) claims process at the federal level. The California processes can differ depending on the size of the claim, the type of contract, and the agency involved. There can be very short periods in which claims need to be filed.

At the local level, it once again becomes less clear. There are California Government Code provisions that appear to require any claim against public agencies to be filed within a very short time after accrual. Similar to the CDA, the claims process can be a prerequisite to filing a suit.

Types of Procurements
Perhaps the most interesting aspect of working on state and local procurements is the variety and types of procurements. There are standard construction projects for buildings. There are computer systems for the California Department of Motor Vehicles, the California Public Employees Retirement System, the state lottery, and the California Health and Human Services Agency.

The contract structures can be very unique. In one case, California was supporting the construction of a commercial building by a developer; upon completion, the building was then to be leased back to the state for 20 years. In another case, the California Department of Corrections and Rehabilitation entered into a services contract to lease prison space from a company. The company built the facility with its own funds and then the state paid the company based on the number of prisoners housed in the facility per day. In another contract, the state only paid a contractor hired to support state procurements a percentage of demonstrable savings. One contract involved providing state agencies with telephone services. Another contract involved providing state agencies with access to the Internet. Most recently, we worked on a contract to provide a DC-10 aircraft for firefighting efforts.

California has its own multiple award schedule contracting program called, appropriately enough, the California Multiple Award Schedule (CMAS). In addition, states in the region have teamed together to increase purchasing power by forming the Western States Contracting Alliance (WSCA).

Fifty Ways (and More) to Run Your Procurement Process/Fifty State Summaries/Electronic Newsletter
The in-house counsel of a contractor that had a division that only performed state and local procurements once told me that the largest part of the company's outside legal fees came in the areas of state and local procurement. That counsel explained that he needed a law firm in each of the 50 states to support their efforts, because the laws were different in each state.

Recognizing the complexity and variety of the laws at the state and local level, our Section embarked several years ago on a project to prepare summaries of the key portions of each state's procurement laws. In the near future we will publish those summaries under the title "Guide to State Procurement—A 50-State Primer on Purchasing Laws, Processes and Procedures." For details about the summaries, go to the Section website at www.americanbar.org/groups/public_contract_law/publications.html.

In addition to publishing the "Guide to State Procurement," the Section is also starting an electronic newsletter that will focus exclusively on state and local procurement issues. Recently the cochairs of the Section's State and Local Procurement Division sent out an e-mail asking members if they wanted to receive the newsletter. Unless you respond in the affirmative, you will not receive it. If you are interested in receiving it, send Section Director Marilyn Neforas an e-mail telling her you would like to receive it. Her address is marilyn.neforas@americanbar.org.

The State and Local Procurement Symposium
Recognizing the breadth and complexities of state and local procurements, the Section in 2006 initiated an annual State and Local Procurement Symposium. We have held this symposium in San Diego, Nashville, Austin, New Orleans, and Seattle. This year we are in Sacramento, California, May 12–14. We have tried to focus the symposium solely on legal issues that arise at the state and local level. We have explored the legal relationships between the federal government and the states, we have examined the "best practices" at the state and local level, and we have explored many more topics. This year we will have presentations on such topics as public-private partnerships, cloud computing at the state level, and recent case developments. The symposium this year has been put together by Pat Meagher, Jennifer Dauer, and Angela Hinton. I would like to thank them for their efforts.

National Association of State Procurement Officials (NASPO)
In an effort to expand the reach of the Section, we began several years ago to improve our relationship with NASPO. This year we have focused on putting in place a memorandum of understanding (MOU) between the Section and NASPO in which we each promise to promote the other’s organization; one aspect of that effort is our joint promotion of the State and Local Procurement Symposium. The MOU also helps to put the symposium on secure financial footing. The Section of Public Contract Law is pleased to be teamed with NASPO for the symposium, and we wish to extend to NASPO our profound thanks for its support.
We gratefully acknowledge the generosity of the following firms whose contributions will help defray the costs of all of the Section’s quarterly receptions this year:

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