



CIRCUIT COURT OF SOUTH DAKOTA
SIXTH JUDICIAL CIRCUIT

HUGHES COUNTY COURTHOUSE
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January 6, 2017

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Re: Hughes County Civ. No. 16-57; *South Dakota Board of Regents v. Council on
Higher Education*

MEMORANDUM DECISION

The South Dakota Board of Regents appeals the final order of the South Dakota Department of Labor and Regulation, Division of Labor and Management (Department), which in effect held that the South Dakota Board of Regents committed an unfair labor practice *per se* by removing from their bargaining agreement a mandatory bargaining topic, specifically an intellectual properties policy, and subsequently committed another unfair labor practice by changing the intellectual property policy. The Court AFFIRMS in part, and REVERSES and REMANDS in part.

STATE OF SOUTH DAKOTA
CIRCUIT COURT, HUGHES CO
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Kevin J. Man Clerk
By *DR* Deputy

BACKGROUND

On June 30, 2011, the collective bargaining agreement between the Board of Regents (Board) and the Council of Higher Education (COHE) expired by its own terms. The bargaining agreement was in effect through June 30, 2011, and included, in Appendix R, a seventeen (17) page text of Board Policy No. 4:34, on Intellectual Property (hereafter, "IP policy" or simply "IP"). Stipulated Facts at p. 2 ¶ 1, 2.

The parties first met on December 14, 2010, to negotiate proposals for changes to their bargaining agreement. *Id.* at ¶ 3. Prior to that time, the Board informed COHE of its *proposal* to withdraw portions of the intellectual property policy from the negotiated agreement. On October 5, 2010, the Board forwarded a set of proposals to COHE, together with statements of rationale, which included its proposals to remove most of the provisions in Appendix R from the bargaining agreement. The Board proposed to make coordinating changes in the agreement's management rights clause, specifically to add,

"4. To establish standards of conduct and performance for unit members, including policies regulating conflicts of interest and conflicts of commitment, together with reasonable work rules of conduct. 5. To establish policies regulating intellectual property, except for matters related to sharing net royalty revenue."

Further, as a preface to Board Policy No. 4:34, in Appendix R,

"The substantive policies governing the ownership, protection and commercialization of intellectual properties discovered, invented, authored or created in the course of employment involve matters of public policy and are not subject to collective bargaining negotiations. These policies are set forth in Board Policy No. 4:34. Policies with respect to royalty distribution to faculty unit members are set forth below in section 6 of Board Policy No. 4:34."

Id. at p. 2-3, ¶ 4.

The parties met on 13 different occasions between December 14, 2010, and June 6, 2011. Stipulated Fact 6. Due to the parties' inability to reach agreement,

the Board declared impasse on June 20, 2011. Department Findings of Fact and Conclusions of Law ¶ 2, AR at 602. Conciliation was held on August 19, 2011, and a fact finding hearing was held on October 28, 2011. Id. at ¶ 3, 4. Despite the efforts of the conciliation and fact finding proceedings, the parties were still unable to reach agreement. Among the items that the parties were unable to agree upon was the removal of the IP from the negotiated agreement, and its placement in the Board's policy manual. Included in the IP policy were certain *timelines* for the universities' Tech Transfer Offices to evaluate faculty inventions, *processing* all forms of intellectual property and *licensing* them in each of their markets. Id. at ¶ 5 (emphasis added). During the negotiations, COHE never challenged the universities' authority to evaluate the intellectual property invented by their employees, or the universities' authority to maintain ownership of that intellectual property. Id. at ¶ 9, AR at 603. COHE did, however, challenge the Board's proposal to remove the IP policy from collective bargaining. It is noteworthy that much of the difference between the parties can be summarized as control over the *timing* of Board / University responses, when a faculty member submits notice of an invention or otherwise seeks publication of a discovery, etc., and the process for University approval. The Board wanted greater freedom in its time to respond than was allowed under the old policy; COHE wanted to participate through collective bargaining, regarding how much time Board would have for these decisions / responses.

During negotiations on January 29, 2011, COHE specifically addressed issues with the Board's proposed changes to the IP Policy with their Policy Position which reads, in part,

Faculty Needs

Disclosure Process

- Defined timelines for a quick decision so that publication and grants can be pursued. *This allows the faculty member to pursue traditional academic pursuits necessary for promotion, tenure and positive annual evaluation.*
- Well defined information requirements which do not require additional development for a decision to be made. *The course of product development is a long and complicated process during which the opportunity is continually refined and the*

risk mitigated. Most disclosures will be at the time the first grant to support the work could be submitted or the first manuscript could be submitted. The requirement to complete more research before a decision on a disclosure can be made is damaging to a faculty members career and is not workable in an academic environment.

When the University elects to develop the IP into a product

- *Defined timelines for patent submission so that publication and grants can be pursued. This allows the faculty member to pursue traditional academic pursuits necessary for promotion, tenure and positive annual evaluation.*
- *A good faith effort to develop the technology and market a product. Performance objectives related to fund raising, product development and/or licensing must be established. If these are not met, it will be judged that the University has abandoned the development and the faculty member must be given the opportunity to develop the technology.*
- *Workload credit for involvement in the development process. This is necessary to protect the faculty member's productivity in other assigned areas.*
- *Credit for the invention and product development. Credit in terms of workload, evaluation and in the public arena must be given to the inventors.*
- *The opportunity to be involved in the discipline specific development of the technology. It is generally understood that during the course of development, other expertise will be brought into the effort but the inventor must be able to participate in the technical development of a product.*
- *A release to the inventor if the patent or development process is abandoned.*

- An equitable sharing of any profits derived from the development of the invention.

When the University decides not to develop the IP

- Defined timelines for the release of the invention. *This allows the faculty member to pursue traditional academic pursuits necessary for promotion, tenure and positive annual evaluation. Notification of intent to abandon a patent application must be given far enough in advance to allow the faculty member to seek investment to keep the submission in good standing.*
- ...
- An equitable sharing of profits.

Stipulated Facts Exhibit V, COHE IP Policy Position (emphasis in original).

On December 5, 2011, the Board voted to impose the removal of the IP policy from the negotiated agreement and for its placement in the Board's policy manual. Department Findings of Fact and Conclusions of Law at ¶ 10. COHE then filed a Petition for Hearing on Unfair Labor Practice on January 31, 2012. *Id.* at ¶ 11. On March 28, 2012, the Board unilaterally adopted changes to the IP policy by removing the timelines from the policy. *Id.* at ¶ 12. COHE filed a second Petition for Hearing on Unfair Labor Practice on May 9, 2012. *Id.* at ¶ 13. The two Petitions were consolidated on June 12, 2012. *Id.* at ¶ 14.

DISCUSSION

COHE's members' jobs consist of some combination of teaching, service, research, and scholarship. The COHE's members are evaluated on these job areas. Such evaluations can affect the COHE's members' chances for tenure, promotion, raises, and overall compensation. *Id.* at ¶ 15. Research can produce intellectual property, i.e. inventions and discoveries. Intellectual properties are inextricable elements of faculty members' jobs. The faculty members are judged on the number of publications that they have and the amount of grant funding they can secure for the university. Grant funding itself is dependent upon publications primarily but also presentations and other disclosures. The inability to publish can cause damage to a faculty unit member's career. *Id.* at ¶ 16.

The IP policy contained in the previous negotiated agreement (negotiated policy) and the IP policy which was unilaterally changed by the Board after impasse and its removal from the agreement (imposed policy), both prohibit a faculty unit member from publishing his/her research prior to disclosing any potential intellectual property from that research to the respective institution, and prior to notification from the institution as to its stance on the potential intellectual property. The negotiated policy contained specific timelines by which the institution notification was to be given, whereas the imposed policy does not. *Id.* at ¶ 17, AR at 604. Under the timelines of the negotiated agreement, the disclosure by the faculty member was required so that the University could patent any individual invention in a timely fashion before it appeared in a competing university or private laboratory. The timelines the University was to adhere to under the negotiated timeline was designed to allow the faculty member a date certain when they could do a publication, a disclosure, a grant application, and keep the research moving forward. *Id.* at ¶ 18.

University intellectual property policies not only affect members of the collective bargaining unit, but also the other university faculty members, postdoctoral fellows, graduate research students, similar professionals at other universities, and persons employed at other government agencies. *Id.* at ¶ 19. Other groups such as research assistants, research associates, post-doctorate researchers, etc., tangentially benefit from the research agenda of the COHE bargaining unit member. *Id.* at ¶ 21. For the COHE bargaining unit member, the research agenda is the source of professional employment and advancement. *Id.* at ¶ 22. Research assistants, research associates, and post-docs work under the direct supervision of the principle investigator COHE bargaining unit member. While these other groups may contribute to the development of patentable technology, they are not creating new technology. *Id.* at ¶ 23. In contrast, COHE bargaining unit members are solely responsible for the direction of the research effort. COHE bargaining unit members are solely responsible for developing grant applications that fund the research responsible for the new technology. *Id.* COHE bargaining unit members are expected to engage in research, and research and/or grant activities, which are then evaluated on both the quality and quantity of the research and on the volume of grants generated. COHE bargaining unit member promotion and tenure decisions, as well as, salary are directly dependent on the evaluation of research performance. *Id.* at ¶ 24, AR at 604-5. Other groups do not have independent research and grant expectations and are not evaluated on this basis. *Id.* at ¶ 25, AR at 605.

QUESTIONS PRESENTED

- I. Whether an Intellectual Property policy is a mandatory subject of negotiations?
- II. If an Intellectual Property policy is a mandatory subject of negotiations, can it be imposed and implemented so long as it was bargained in good faith to legitimate impasse?¹

LEGAL STANDARD

This court's review of a decision from an administrative agency is governed by SDCL 1-26-36.

The court shall give great weight to the findings made and inferences drawn by an agency on questions of fact. The court may affirm the decision of the agency or remand the case for further proceedings. The court may reverse or modify the decision if substantial rights of the appellant have been prejudiced because the administrative findings, inferences, conclusions, or decisions are:

- (1) In violation of constitutional or statutory provisions;
- (2) In excess of the statutory authority of the agency;
- (3) Made upon unlawful procedure;
- (4) Affected by other error of law;
- (5) Clearly erroneous in light of the entire evidence in the record; or

¹ While the Board raised seven issues in their Statement of Issues on Appeal, which were then adopted by COHE in their brief, the Court finds that all issues can be reduced to the two stated here.

(6) Arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion.

A court shall enter its own findings of fact and conclusions of law or may affirm the findings and conclusions entered by the agency as part of its judgment.”

SDCL 1-26-36. “Agency decisions concerning questions of law . . . are fully reviewable.” *Hayes v. Rosenbaum Signs & Outdoor Adver., Inc.*, 2014 S.D. 64, ¶ 7, 853 N.W.2d 878, 881. “Questions of fact are subject to clearly erroneous review.” *Steinmetz v. State, DOC Star Academy*, 756 N.W.2d 392, 2008 S.D. 87.

ANALYSIS

I.

Whether an Intellectual Property policy is a mandatory subject of negotiations?

SDCL § 3-18-3 reads, in relevant part, “Representatives designated or selected for the purpose of formal representation by the majority of the employees in a unit for such purposes shall be the exclusive representation in respect to rates of pay, wages, hours of employment, or *other conditions of employment*.” SDCL § 3-18-3, (emphasis added). Under SDCL § 3-18-3.1(6), failure or refusal to comply with any provision of SDCL § 3-18-3 shall be deemed an unfair practice.

The South Dakota Supreme Court has defined the term “other conditions of employment” in *Rapid City Education Ass’n v. Rapid City Area School District No. 51-4*, 376 N.W.2d 562 (SD 1985). The Court adopted a three-prong test to determine whether a particular subject constituted a condition of employment on which public employers must negotiate. According to that test, a subject is a negotiable condition of employment only if:

- (1) It intimately and directly affects the work and welfare of public employees;
 - (2) It has not been preempted by statute or regulation;
- and

- (3) It is a matter on which the negotiated agreement would not significantly interfere with the exercise of inherent management prerogatives pertaining to the determination of government policy.

Rapid City Education Ass'n, 376 N.W.2d 562, 564 (citing *In re Local 195, IFPTE, AFL-CIO v. State*, 88 N.J. 393, 403, 443 A.2d at 191-93). To be deemed a mandatory subject of negotiation, the condition must meet all three prongs of the above test.

The Court finds that an IP Policy intimately and directly affects the work and welfare of public employees, thus meeting the first prong of this test. The IP Policy has not been preempted by statute or regulation, thus meeting the second prong of this test. *Moreover, at oral argument the parties agreed that this case turns upon the third prong.*

Consequently, the Court must decide whether requiring mandatory negotiation of the IP would significantly interfere with the exercise of inherent management prerogatives pertaining to the determination of governmental policy. In *Webster Education Ass'n v. Webster School District No. 18-4 and Board of Education*, 2001 S.D. 94, 631 N.W.2d 202, the South Dakota Supreme Court laid out a test for this third prong.

"In the context of public sector labor disputes, to take an otherwise mandatory subject of negotiation out of the scope of required bargaining, there must be a significant impairment of the ability of the employer to determine public policy. We are required to balance the competing interests by considering the extent to which collective negotiations will impair the determination of governmental policy."

Webster Education Ass'n at 205, (citing *Leonard Oberle v. City of Aberdeen and Thomas L. Hopper*, 470 N.W.2d 238, 246).

In *Webster*, the Webster School District appealed the Department of Labor's decision to require the District to negotiate its reduction in force and recall policy with the Education Association. The Court found that there is a "distinction between the public employer's *substantive* decision to transfer or assign employees

and the *procedural* process to be followed [after] making such a decision . . . The former constitutes inherent managerial prerogatives, while the latter does not." *Id.* at 206, (citing *Township of Old Bridge Bd. Of Educ. V. Old Bridge Educ. Ass'n*, 98 N.J. 523, 489 A.2d 159, 162 (emphasis in original)). "[T]he decision to reduce staff is a managerial decision for the school board and thus is not mandatorily negotiable. However, the *mechanics* for termination or non-renewal of teachers as a result of reduction of staff are mandatorily negotiable items." *Id.* (citing *Thompson v. Unified School Dis. No. 259*, Wichita, 16 Kan.App.2d 42, 819 P.2d 1236, 1239 (1991)). The Court held that because the reduction in force and the recall policy were procedural or mechanical in nature, it did not circumscribe the District's inherent governmental prerogatives, and therefore met the third prong of the test. The Board seems to interpret the *Webster* decision to stand for the proposition that, "[p]rocesses that are neither procedural nor mechanical, but that involve substantial discretion in implementing government policy are not mandatory topics merely because they involve orderly decision-making." Appellant Brief at 24. However, this Court does not interpret *Webster* to stand for that argument.

During negotiations on January 29, 2011, between the Board and COHE, COHE expressed concern with the Board's proposal to remove *procedural aspects of the intellectual property policy bargaining agreement*. Stipulated Facts Exhibit IV at 114. "They feared that requirement with respect to the reporting or administration of disclosures could change with little notice, at administrative whim or in response to a single incident." *Id.* The Board did not deny the premise that it sought to remove *procedural* aspects, but rather responded that "there are in fact some instances in which a very prompt change in policy is required to respond to developments in the law." *Id.* However, COHE represented that it has proven its willingness and ability to promptly negotiate terms needed to address bona fide change in legal requirements. Further, during those negotiations, COHE laid out issues involving the *timeline* process in their IP Policy Position, *supra*.

Appellants quote a portion from the Stipulated Facts in this case stating that,

"[t]he proposal included an initial statement of rational, the preservation and management of property that inures to the public under law presents an inherent matter of public policy that must be reserved for decision by policy makers who are accountable through the political process. The apportionment of royalty revenues, in contrast, presents an economic matter consistent with well

established [*sic*] authority that makes compensation a mandatory bargaining topic.' Stipulated Fact 4."

Appellant Brief at 19. More pertinent parts of the Stipulated Facts read, "On June 30, 2011, the collective bargaining agreement between the Board and COHE expired by its own terms." Stipulated Fact 1. "The bargaining agreement in effect through June 30, 2011, included as its Appendix R the entire seventeen page text of Board Policy No. 4:34. Exhibit I." Stipulated Fact 2.

"On October 5, 2010, the Board forwarded to COHE a set of proposals, together with statements of rationale, which included its proposals to remove from the bargaining agreement most of the provisions in Appendix R, Exhibit I, and to make coordinating changes in the agreement's management rights clause:

3.2 SPECIFIC MANAGEMENT PREROGATIVES

These management rights include but are not limited to the following:

1. To utilize personnel, methods, and means in the most appropriate and *efficient* manner possible.
2. To manage and direct the employees of the Board.
3. To hire, promote, transfer, assign, reassign or retain employees in positions under the jurisdiction of the Board.
4. To ~~establish standards of conduct and performance~~ for unit members, including *policies regulating conflicts of interest and conflicts of commitment*, together with reasonable work rules of conduct.
5. To *establish policies regulating intellectual property, except for matters related to sharing net royalty revenue.*
6. To *suspend, demote, discharge or take other appropriate disciplinary action* against employees.

7. To determine the sizes and composition of the institutions in its charge and to lay off faculty unit members as provided for under Articles IV, VII, and SCI.
8. To interpret the mission of each institution and the *methods and means necessary to efficiently fulfill that mission*, including the contracting out for or the transfer, alteration, curtailment or discontinuance of any services.

Stipulated Fact 4 (emphasis added). Many of these proposed changes in management prerogatives go directly to *procedure*. Further, the Board admits that compensation is a mandatory bargaining topic, yet Appendix R which they seek to remove from the bargaining agreement deals exclusively with "Intellectual Property Income Distribution". Appendix R, Section 6 of Board Policy No. 4:34. Section 6 reads,

"Where the institution retains title to an intellectual property ~~and income is created~~ that has been commercialized and yields income, the creator will receive 50 percent of all net revenues realized by the institution from commercialization of the property. Net revenues will equal gross revenues reduced by taxes or other governmental fees, charges or assessments and commercially reasonable direct costs that the institution ~~incurs~~ may have incurred to protect and to develop the property and to realize the property's commercial value. Where two or more employees contributed to the creation of the property, the creator's share of revenues will be divided among them equally, unless the employees agree upon a different distribution among themselves and notify the institution in writing of their agreement."

Appendix R, Section 6 of Board Policy No. 4:34. In the Imposed IP Policy this is moved to Section 11 and re-titled "Allocation of Revenue" and provides a more detailed depiction of distribution.

The Board directs this Court's attention to *Rutgers Council of AAUP Chapters v. Rutgers, The State University*, 381 N.J.Super. 64, 884 A.2d 821 (App. Div. 2005). In that case, the Board of Governors of Rutgers approved an amendment to the University's Patent Policy in 1996. *Rutgers* at 823. In 2003, AAUP filed a petition with the Public Employment Relations Commission (PERC) seeking a determination on whether certain aspects of that Patent Policy were subject to mandatory negotiations and thus, could not be unilaterally adopted by

the University. *Id.* PERC concluded that four subjects of the 1996 Policy were mandatorily negotiable: "that pertaining to the distribution of royalty income to inventors, that pertaining to the timing of disclosure of inventions and discoveries, that pertaining to the ownership of laboratory notebooks and that pertaining to the terms under which inventions and discoveries are assigned to Rutgers." *Id.* at 825. However, the New Jersey Court of Appeals found that only issues of income and terms of assignment were topics of mandatory negotiation. *Id.* at 826-28. While recognizing that this case law is not binding upon this Court, the Court still finds that there are topics of both income and assignment within the IP Policy. In the General Statement it is stated,

"Subject to the exceptions permitted, and on the conditions stated, in §§ 4 and 6 of this policy, the Board will *own* employee created intellectual property developed in the course of performing employment duties or as a direct result of activities supported by funds controlled by or administered under the authorization of the Board or undertaken in facilities or using resources controlled by or administered under the authorization of the Board.

Where an intellectual property owned by the Board generates income from its licensing or assignment, the creator will be guaranteed a *minimum share of net income* as provided in § 11 of this policy."

Imposed Intellectual Property Policy Manual No. 4:34, Exhibit XXII, at 643-44 (emphasis added).

Further, in what could be considered the "pre-amble" to the Imposed IP Policy of the Board in our case, the procedural background states,

"Among the measures incorporated into the revised policy are requirements that should create opportunities for system administrators: (a) to identify issues that may compromise property *ownership* and options to protect such *rights*; and (b) to discuss these with researchers before the advance of research or publication limits the practical and legal options for protecting the results of research conducted by system university personnel."

Stipulated Facts, Exhibit XXII at 639. Also, "[a]nticipating that the use of *assignments* of expectant interests will be more common in research agreements, the revised Board No. 4:34 *requires an assignment* of expectant interests in intellectual property in order to hedge against unintended surrender of rights." *Id.*

at 640. The assignment issue clearly presents a topic of mandatory negotiations under the *Rutgers* ruling.

The Kansas Public Employee Relations Board conducted a similar balancing test as that in *Webster Education Ass'n, supra*, to determine if a matter would significantly interfere with the exercise of inherent management prerogatives.

[T]his prong of the test rests on the assumption that most decisions of the public employer affect the work and welfare of public employees to some extent, and that negotiation will always impinge to some extent on the determination of public policy. The two conflicting interests cannot be reconciled by focusing solely upon the impact or effect of managerial decisions but instead the nature of the terms and conditions of employment must be considered in relation to the extent of their interference with management rights as set forth in K.S.A. 75-4326.

The requirement that the interference be "*significant*" is designed to effect a balance between the interest of public employees and the requirements of democratic decision making. A weighing or balancing must be made. Where the employer's management prerogative is dominant, there is no obligation to negotiate even though the subject may ultimately affect or impact upon public employee conditions of employment.

The basic inquiry therefore, must be whether the dominant concern involves an employer's managerial prerogative or the work and welfare of the public employee. The dominant concern must prevail. Since the line which divides these competing positions are often indistinct, it must be drawn on a case by case basis.

PSU/KNEA v. Kansas Board of Regents/Pittsburgh State University, Remand, Case No. 75-CAE-23-1998, 2007 WL 5883184 (KS PERB).

The Board asserts that it was entitled to negotiate to remove the IP from collective bargaining (and declare impasse if need be) because the processes of

evaluating patentability and marketability, far from being merely procedural or mechanical in nature, involves complex, quintessentially governmental decisions, balancing legal and commercial factors, interests of joint inventors and university finances, obligations, and mission. Appellant Brief, p. 15. Further, the Board believes it was entitled to act because the intellectual property policy presents a nonnegotiable matter of general public interest that requires basic judgments about how to achieve the objectives and goals of the universities and their research-related programs and may, therefore, only be resolved through a political process open to all affected parties. *Id.* This court does not deny that the IP process does have some “reach” or impact outside the confines of University staff, but the Board overstates that reach. Primary impact is confined to the various players involved in the development, submission, and approval (or non-approval) of proposals.

An invention may only be patented if it can be shown to be useful, new, and nonobvious. 35 U.S.C. §§ 101 – 103. In general, an invention cannot qualify as new if it was “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention.” 35 U.S.C. § 102(a). The Board argues that the processes of deciding whether to publish inventions before filing patent applications for them are neither procedural nor mechanical, but rather they involve the careful assembly of information involving multiple aspects of the invention in relation to other inventions and publications, consultation, deliberation and decisions, cases by case, informed by consideration of legal and commercial factors, interests of joint inventors and university finances, obligations and mission. Appellant Brief at p. 25. However, the court sees those functions as relatively narrow in scope, and more a matter of process and timing, than substance or content. True, the deliberations are complex, but they are still deliberations in the confined category of inventions and publications on a campus, and the court believes that Board’s main objection to the negotiated IP is that the Universities are required to perform complex review work under a timeline. Timeline is procedure, and negotiating procedure does not rob the Board of the ownership of the work product, and does significantly interfere with management of that work product. Under the negotiated IP, the University had to respond in specified timeframes. In reality, professors and researchers are expected to live with production deadlines; they are rewarded (or not) based on timely and regular production of useful inventions or publications. Mandating negotiation on when the University, in its turn, will produce the response to submissions, is nothing more than a balanced quid quo pro largely only of interest to the immediate parties.

The Board also argues that some of these decisions involve allocation of limited university funds, and thus involve the exercise of core government prerogatives. *Id.* (citing *West Central*, 2002 SD 163 ¶ 18). However, the South Dakota Supreme Court addressed budget and funding issues in *Rapid City Education Ass'n*, *supra*. "True, the items sought to be negotiated will have an impact upon the District's budget, but no more so than the items that are presently negotiable under the *Aberdeen Education Ass'n* test of negotiability." *Rapid City Education Ass'n* at 565.

The Board also relies on *West Central Education Ass'n v. West Central School District*, 2002 SD 163, 655 N.W.2d 916. In that case, the Court determined that a K-12 school calendar was not a mandatory subject of negotiations. The Court held,

"The determination of the school calendar through collective bargaining substantially interferes with an inherent management prerogative that pertains to the determination of the government's educational policy. Our conclusion is supported by the fact that, as we previously noted, the school calendar not only affects teachers, but also other school employees, students, parents, taxpayers, other school districts and cooperatives providing joint activities and programs, and in some instances, the entire community."

West Central Education Ass'n, 2002 SD 163, ¶ 20, 655 N.W.2d at 924.

West Central identified circumstances in which policy decisions must be reserved to a democratic political process that is open to all interested parties, rather than in a collective bargaining process with only one group of employees. "[T]he school calendar is a matter of general public interest that requires basic judgments about how the government should best educate the state's children." *Id.* at 923, citing *In re Burlington County College Faculty Association v. Board of Trustees*, 64 N.J. 10, 311 A.2d 733, 736 (N.J. 1973). The Board argues that the Department failed to consider the effects that the policy might have upon individuals and upon taxpayers, other school districts and cooperatives providing joint activities and programs, and in some instances, the entire community. However, the Board makes these claims in a rather broad and conclusory manner, and does not explain particular impacts. The court believes that the primary

impacts of mandatory negotiation of the IP really only impacts the narrow category of researchers, professors, and the employees of the particular University charged with assessing and responding to submissions by members of COHE. The Board asserts that “[b]asic judgments about how best to manage inventions arising from research conducted by state universities present nonnegotiable matters of public interests...”. *Id.* at 29. The Board posits that invention gives rise to property rights, and that University research often leads to joint inventorship by multiple persons with varying specialties and not all of whom are employed by the entity conducting the research, or members of the COHE bargaining unit. *Id.* at 27. The Board continues, “[c]ore policies apply to all persons participating in a research project, irrespective of their employment or student status.” *Id.* at 28. This Court, however, agrees with the Department that in this case, those individuals that are directly affected by the IP Policy stand in virtually the same position, including members of the collective bargaining unit, other university faculty members, postdoctoral fellows, employees, graduate research student, students, similar professionals at other universities, and persons employed at other government agencies. Decision of Department dated January 8, 2016 at 7; AR 506.

“All will tend to benefit by the efficient and *timely evaluation* of the intellectual property. South Dakota is a ‘right to work’ state. Consequently, virtually every school district where contracts are negotiated between the district and the teachers’ union, there are faculty members who are not members of the union. The law, nonetheless, provides for the union to negotiate on behalf of the non-union members.”

Id. (emphasis added.); *see also* SDCL § 3-18-3.

The Court finds that an IP Policy is distinguishable from a school calendar. The school calendar was a battle of substance, with wide ranging impact upon the entire community at large, rather than a parochial dispute between various players on campus regarding how to handle inventions and other submissions. Where the school calendar affected the entire community, the mandatory bargaining on the IP Policy only affects the University prerogatives indirectly, but not “significantly.” The reach of the IP Policy is far narrower than the school calendar as there is no direct impact on taxpayers, state government, or even most University members and staff. The application of this policy is confined to the faculty members who perform research and create copyright and patent material, along with their co-

workers, and those who oversee this process and determine which ideas or inventions are ready for publication or distribution. As such, the IP Policy directly affects the careers and livelihoods of the COHE members, going to the first prong of the *Rapid City Education Ass'n* test, far more than any impact on the entire University, community, or state. "Faculty members have substantial interests in publishing with minimal delay; they may gain recognition, job offers, tenure, promotion, salary increases and improve their prospects for receiving research grants based upon publications." Appellant Brief at 5.

The Intellectual Property Policy Manual No. 4:34, which the Board seeks to impose after impasse, states as its purpose:

"Where commercially valuable intellectual properties are developed within the scope of employment and using public funds or resources, the Board must balance the interests of creators with the interests of the public in benefitting from the commercial use of such properties. Moreover, where commercially valuable intellectual properties arise from federally funded research, the Bayh-Dole Act of 1980 requires disclosure of the property to the granting agency and generally regulates the commercialization of any such property and use of its income.

This policy sets forth the *principles and procedures* through which the Board balances the rights of creators, the interests of the public and its obligations under federal law in the management of intellectual properties created by faculty members, other employees and students contributing to sponsored or faculty-directed research."

Imposed Intellectual Property Policy Manual No. 4:34, Stipulated Facts Exhibit XXII at 643 (emphasis added). The policy itself is clear in its intent to set "principles and procedures" to help the Board in its "management of intellectual properties". This is in line with *Webster Education Ass'n, supra*.

The Imposed IP Policy contains an entire section labeled "Procedures" which details the process by which intellectual property is disclosed, how disputes are resolved, and distribution of intellectual property income, *inter alia*.

"All faculty members, professional employees, graduate research assistants or other employees whose duties involve the use of institutional resources to research or to develop properties that may be subject to protection as intellectual properties will *enter into an agreement* at the time of hire assigning, to the Board all right, title and interest, whether present or expectant, in intellectual properties developed in the course of performing their employment duties or as a direct result of activities supported by facilities or resources controlled by or administered under the authorization of the Board.

Id. at 649 (emphasis added).

The new policy removed the timelines from the Procedure section, which had previously included:

"Within *thirty working days* of receipt of the disclosure, the Designated Individual will make a determination whether the institution has reason to exercise ownership rights over the intellectual property, together with a preliminary assessment of the potential value of the property. The Designated Individual will send creator a notice of the determination by the *thirty-fifth* working day."

Negotiated Intellectual Property Policy No. 4:34, Exhibit I at 29 (emphasis added.)

"If the property is determined to be owned by the institution, the Designated Individual will then have *120 days to make a determination* whether or not to commercialize the disclosed intellectual property. Following this determination, the Designated Individual will have an *additional ten days in which to inform* the creator of the intellectual property of this decision."

Id. at 30 (emphasis added).

Under the Disclosure of Intellectual Property with Potential Commercial Value, the imposed policy states,

"The disclosure to the Intellectual Property Manager will be in writing, whether in paper or electronic form; will consist of a full and complete description of the subject matter of the discovery or development; will identify any research sponsors; and will be signed and dated by each person claiming to be a creator of the property...."

Accordingly, the disclosure must be made *sufficiently in advance* of prospective publication, release or commercial use to permit timely filing of a patent application, copyright registration or other appropriate form of intellectual property protection in the United States and in foreign countries....

The Intellectual Property Manager will *schedule meetings* with the creators to discuss the disclosure... Creators will *comply with the written recommendations* of the Intellectual Property Manager... The Intellectual Property Manager will not *unreasonably delay or interfere* with continued research...."

Imposed Intellectual Property Policy Manual No. 4:34, Exhibit XXII, at 651-52 (emphasis added). Hence the new IP policy, declared after impasse, can be defined not so much by what it contains, as what it does not contain... it no longer contains all those responsive deadlines imposed upon the University or Board. And thus by the Board's act of deletion, we see that this fight is over timing, more so than content or control or "management prerogatives."

The excerpts set out above, go to show the intent and effect of the IP Policy. This Policy is wrought with implications of procedural process and issues of timing. Mandating negotiation of the timing of a University response will not markedly interfere with the right of the University or Board to continue to own and oversee the process; it will only force the University to live by timelines. Moreover, while the Board's brief paints the IP Policy as inherent managerial prerogatives, much of its argument speaks only to procedure or timing, thus being a mandatorily

negotiable item under *Webster, supra*. “Universities commonly encourage faculty members to *delay publication of inventions until* university administrators have had a *fair opportunity to determine* whether to invest in filing a provisional or nonprovisional patent application.” Appellant Brief at 6-7 (emphasis added). “The process of *evaluating* a newly discovered invention[] takes *time*.” Id. at 7 (emphasis added). “If it is difficult in any given case to decide whether an invention should be *published before* filing a patent application, the more daunting challenge arises when trying to devise a *process* that balances the interest in prompt publication with the need to afford university administrators a *fair opportunity to deliberate* over such decisions in each case.” Id. at 9 (emphasis added). The case before the Court involves primarily the mechanics of *when* the university responds to an IP submission, not *how*. It is clear that the timing and procedural process are at the forefront of the IP Policy, which makes it a mandatorily negotiable item under *Webster* and the third prong of *Rapid City Education Ass’n, supra*.

The Court AFFIRMS the decision of the Department that the IP Policy is a subject of mandatory negotiations.

II.

If an Intellectual Property policy is a mandatory subject of negotiations, whether it could be imposed and implemented so long as it was bargained in good faith to legitimate impasse?

The Court, having found that the IP Policy is a mandatory subject of negotiations, must then consider whether such policy can be imposed and implemented following good faith bargaining and a legitimate impasse. The Board argues that it bargained in good faith to legitimate impasse and could therefore impose and implement the clause, even if the clause presented a mandatory topic. Appellant Brief, p. 15. The Board asserts that *Bon Homme County Com’n v. American Federation of State, County, and Mun. Employees (AFSCME), Local 1743A*, 699 N.W.2d 441, 177 L.R.R.M. (BNA) 2990, 2005 S.D. 76, created precedent that protects public employer prerogatives to bargain and to implement proposals that expand management rights over mandatory bargaining topics. *Bon Homme* involved labor negotiations between Bon Homme and Kingsbury Counties and labor unions representing their highway employees. Each county sought very broad management rights clauses enabling the county to control certain mandatory terms

and conditions of employment. *Bon Homme*, 2005 S.D. 76, ¶ 4, 9. This court will not reiterate all of the sweeping managerial rights sought by the counties in *Bon Homme*, but suffice to say they were rights much farther reaching than the removal of the IP from the Board and COHE's collective bargaining.

The Court in *Bon Homme* determined that a management rights clause could contain both mandatory negotiable and non-negotiable components, making a review of the clause necessary before determining if its imposition would be an Unfair Labor Practice.

“Just as the ‘mere invocation’ of abstract terms and categories is not helpful in determining whether a subject is negotiable, neither is it appropriate for a reviewing authority to declare, as a matter of policy, that management rights clauses are *per se* proper or improper. Such an analysis may be expedient, but it assists little in determining whether individual portions of a clause may be the proper subject of negotiation or may in some way unlawfully obstruct public employee rights to negotiate.”

Bon Homme, 2005 SD 76, ¶ 17, 699 N.W.2d at 449-50. The Court went on to say, “although it is not *per se* unlawful for a public employer to bargain to impasse over a management rights clause, an employer may not use these clauses in such a way to constitute an unfair labor practice.” *Id.* at ¶ 22. Only when a public employer fails “to negotiate collectively in *good faith*,” does that employer commit an unfair labor practice. *Id.* (citing SDCL 3-18-3.1(5) (1973) (emphasis in original)).

SDCL § 3-18-2 provides in part:

The negotiations by the governmental agency or its designated representatives and the employee organization or its designated representative shall be conducted in good faith. Such obligation does not compel either party to agree to a proposal or require the making of a concession but shall require a statement of rationale for any position taken by either party in negotiations.

SDCL § 3-18-2. “Good faith negotiation requires that where a party refuses to agree to a proposal or make a concession, that party is required to provide a ‘statement of

rationale.” *Bon Homme*, 2005 SD 76, ¶ 22. This statement must be *specific and meaningful*. *Id.* at ¶ 25 (emphasis added).

The Department of Labor and Regulation found that an intellectual property policy is a mandatory subject of negotiations, and determined the Board committed an unfair labor practice when it removed the IP Policy from the parties’ negotiated agreement. Under *Bon Homme*, however, the Board proposal during negotiations, to remove a mandatory topic from the collective bargaining agreement, is not a *per se* unfair labor practice. The question is whether the Board negotiated this removal in good faith, articulating legitimate and specific rationale? The Board must provide a statement of rationale, which is then assessed and weighed by the trier of fact, in this case the ALJ of the Department.

However, because the ALJ in this case decided in effect that the IP is a mandatory topic of negotiation, and therefore that its removal was an unfair labor practice, the ALJ did not proceed to weigh the evidence of whether the Board bargained for the removal in good faith. (COHE contended at oral argument that good faith is irrelevant, and indeed the ALJ never decided good faith.) At least one of the parties suggests that this court can make that determination on its own and need not remand. However, much evidence and testimony was taken by the ALJ, and it is not the place of this court to intervene in administrative fact finding. Agencies are entitled to make witness credibility determination and choose between conflicting testimony. *In re Jarman*, 860 N.W.2d 1, 2015 S.D. 8. Witness credibility is a question of fact. *Smith v. Stan Houston Equipment Co.*, 836 N.W.2d 647, 2013 S.D. 65. It is the role of the Department to take testimony, make credibility determinations, and find facts, and the role of the reviewing court to judge those actions of the Department by the clearly erroneous standard. SDCL § 1-26-36; *Foley v. State ex rel. South Dakota Real Estate Com’n*, 1999, 598 N.W.2d 217; *Cheyenne River Sioux Tribe Telephone Authority v. Public Utilities Com’n of S.D.*, 1999, 595 N.W.2d 604. This Court will not make factual determinations based on testimony it has not heard, nor are there findings of fact presented by the Department upon which the Court can apply a standard of review.

Accordingly, the Court REVERSES the Department’s determination that the Board committed *per se* unfair labor practices, and REMANDS for a determination on the merits of whether the Board negotiated in good faith for the removal of the IP, in accordance with *Bon Homme, supra*.

CONCLUSION

For the foregoing reasons, the Department's decision is AFFIRMED in part, REVERSED in part, and REMANDED for a determination of whether the Board negotiated in good faith, for the removal of the IP from the agreement.



Honorable Mark Barnett
Sixth Circuit Court Judge

STATE OF SOUTH DAKOTA
COUNTY OF HUGHES

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IN CIRCUIT COURT
SIXTH JUDICIAL CIRCUIT

SOUTH DAKOTA BOARD
OF REGENTS,

Appellant,

v.

COUNCIL ON HIGHER EDUCATION,
Appellee.

CIV NO. 16-57

ORDER

WHEREAS, the Court entered its Memorandum Decision on January 6, 2017, and that Memorandum Decision constitutes the Court's findings of fact and conclusion of law, and expressly incorporates by reference the same herein, it shall be and hereby is

ORDERED that the Decision by the Department of Labor is AFFIRMED in part, and REVERSED and REMANDED in part for further proceedings in accordance with the Memorandum Decision. SDCL 1-26-36.



Dated this 6th day of January, 2017.

BY THE COURT:



Mark Barnett
Circuit Court Judge

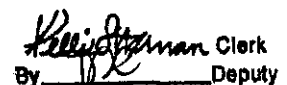
ATTEST:


Clerk of Court
(SEAL)


STATE OF SOUTH DAKOTA
CIRCUIT COURT, HUGHES CO

FILED

JAN 06 2017


By _____ Clerk
Deputy