

## GRANT AGREEMENT

This grant agreement (this "Agreement") is made effective on October 18, 2016 (the "Effective Date"), between **Chapman University**, a California nonprofit corporation (the "University"), for the benefit of the **Smith Institute for Political Economy and Philosophy** (the "Institute"), to be imminently created at the University, and the **Charles Koch Foundation**, a Kansas nonprofit corporation (the "Donor"). The term of this Agreement shall begin on the Effective Date and shall continue for ten years (the "Term"), unless otherwise provided for in this Agreement. The University and Donor are sometimes referred to in this Agreement individually as a "Party" and collectively as the "Parties." The Parties agree as follows:

1. **Promoting Academic Freedom.** Consistent with the Donor's principles of supporting a diversity of ideas in higher education, any grant funds provided by Donor under this Agreement are intended to help promote a republic of science at the University, where ideas can be exchanged freely and useful knowledge will benefit the well-being of individuals and society. Thus, the Parties agree that the academic freedom of the University, the Institute, and their faculty, students, and staff is critical to the success of the Institute's research, scholarship, teaching, and service. For the purpose of this Agreement, academic freedom for faculty is defined by the University's Faculty Manual.

2. **The Institute.** The University and the Donor desire to support the Institute to advance the University's educational mission as follows:

a. **The Institute's Mission and Director.** As stated in the University's proposal, which is hereby incorporated into and made part of this Agreement and attached as Attachment A (the "Proposal"), the University has informed the Donor, and the Donor is relying on such representation, that the Institute's broad mission is to reintegrate the study of the humanities and economics in the spirit of Adam Smith and to recombine research and undergraduate education as a discovery process in the spirit of Vernon Smith (the "Institute's Mission"). The University, according to its normal procedures, has selected Dr. Bart Wilson to be the director of the Institute (the "Institute Director"). The Parties believe that the Institute Director is an invaluable part of advancing the Institute's Mission. Therefore, if the individual holding the Institute Director position changes, the University shall promptly notify the Donor. Any new Institute Director will be hired according to the University's normal procedures.

b. **The Institute Programs.** To further support the Institute's Mission, the University desires to create the following positions and support the following activities at the Institute, collectively referred to as the "Institute Programs." The Institute Programs are described more fully in the Proposal and include nine "Tenure-Track Professorships," two "Clinical Associate Professorships," an "Eminent Visiting Professorship," five "Post-Doctoral Fellowships" annually, an "Operations Coordinator," "Research Support and an Annual Conference/Workshop." The University shall use any funds received under this Agreement solely to support the Institute Programs in accordance with this Agreement. The selection of the foregoing positions will follow the University's normal procedures for hiring faculty and staff, and the Institute Director will approve the selection of the individuals filling the foregoing positions.

3. **The University's Commitment to and Support for the Institute.**

a. **Generally.** The University shall support the Institute Programs as provided for in this Agreement to advance the Institute's and University's missions during the Term, and it is the intent of the University for the Institute to continue beyond the Term. As part of this support, the University shall ensure that the Institute is created by no later than November 1, 2016.

b. **Institute Office Space.** The University shall ensure that the faculty, students, and staff working with the Institute receive adequate office space to achieve the Institute's Mission, and shall

provide the Institute sufficient space to accommodate the needs of the Institute's existing faculty and staff. The University shall continue to provide the Institute with substantially similar or increased office space at the University sufficient to accommodate the needs of the then existing faculty and staff during the Term and is intended to continue throughout the Institute's existence.

**4. The Donor's Support for the Institute Programs.**

a. Contributed Amount. Subject to the terms of this Agreement, the Donor agrees to contribute funds to the University and the University agrees to accept and use such funds solely to support the Institute Programs to advance the Institute's Mission (all or part of such funds are referred to as the "Contributed Amount(s)"). In no event shall the aggregate Contributed Amount under this Agreement exceed \$5 million to be distributed in the following categories of the Institute Programs on the dates described in Section 5.b. below.

<b>Institute Programs</b>	<b>Maximum Contributed Amount</b>
Salary and fringe benefits for nine Tenure-track Professorships	Up to \$2,731,000
Salary and fringe benefits for two Clinical Associate Professorships	Up to \$ 591,000
Salary and fringe benefits for an Eminent Visitor Professorship	Up to \$ 260,600
Costs and expenses for up to five Post-Doctoral positions annually	Up to \$ 811,000
Salary and fringe benefits for an Operations Coordinator	Up to \$ 163,700
Research Support and Annual Conference/Workshop	Up to \$ 442,700
<b>Total Maximum Contributed Amount by Donor</b>	<b>Up to \$5,000,000</b>

b. Other Support. If the University and Donor mutually agree, the Donor may also contribute in-kind services to the University to help promote the work of the University, the Institute, or the University faculty, students, and staff.

c. Contingent Grant. The Donor's support under this Agreement is expressly contingent upon the University and Dennis Troesh and [REDACTED] each executing an agreement providing for a grant from Dennis Troesh (the "Troesh Grant Agreement") and [REDACTED] to support the Institute Programs. Therefore, the Donor shall not provide any of the Contributed Amount or be obligated to fulfill any other obligation until the Troesh Grant Agreement and [REDACTED] are executed. The Donor's pledge to make contributions pursuant to this Agreement and Dennis Troesh and [REDACTED] pledges to make contributions pursuant to the Troesh Grant Agreement and [REDACTED] are each contingent upon each other.

Individual names  
have been redacted  
to honor their  
preference for  
anonymity.

**5. University Grant Report; Proposed Grant Award and Schedule.**

a. University Grant Report. The University shall submit an annual written report according to the schedule below to the Donor for the Donor's consideration (the "University Grant Report"), including, but not limited to an accounting of the expenditure of any Contributed Amount previously received. If the Donor approves the University Grant Report, the Donor shall make a contribution up to the amount listed in the below schedule to the University, and the University agrees to accept and use such Contributed Amount for the Institute Programs.

b. University Grant Report and Proposed Grant Award Schedule.

University Grant Report Date	Donor Response and Proposed Contribution Date	Maximum Contributed Amount
Submitted upon the signing of this agreement	Within 60 days of signed agreement	Up to \$ 196,000
March 1, 2017	On or about May 1, 2017	Up to \$ 738,500
March 1, 2018	On or about May 1, 2018	Up to \$ 999,500
March 1, 2019	On or about May 1, 2019	Up to \$1,004,500
March 1, 2020	On or about May 1, 2020	Up to \$1,045,500
March 1, 2021	On or about May 1, 2021	Up to \$ 727,000
March 1, 2022	On or about May 1, 2022	Up to \$ 289,000
<b>Total Maximum Contributed Amount by Donor</b>		<b>Up to \$5,000,000</b>

c. The Fund. The University shall place all of the Contributed Amounts in a segregated and restricted fund on its books and records called the "SIPEP - CKF Fund" (the "Fund"). The Fund shall be used solely to support the Institute Programs and the Institute's Mission as stated in this Agreement. The University shall make the Fund available for contributions from other donors. If another donor makes a contribution to the Fund, the University shall promptly notify the Donor of the amount donated and, if permitted by the other donor, the name of the other donor.

6. Contributed Amount Used Solely for Educational Purposes for the Institute Programs.

a. Tax Status. According to IRS Records, the University is qualified as an Internal Revenue Code ("Code") section 501(c)(3) organization and is classified as a public charity pursuant to Code section 509(a)(1). The University agrees to immediately notify the Donor if its tax status changes.

b. Educational Purpose. The Contributed Amount will be expended solely for the Institute Programs, consistent with the University's tax exempt educational purpose described in section 170(c)(2)(B) of the Code. The Contributed Amount will not be used to influence legislation as described in section 4945(d)(1) of the Code, to influence the outcome of any election, for a political campaign or intervention, to carry on any voter registration drive, or any other purpose that would jeopardize the Donor's or University's tax-exempt status or subject the Donor to penalties under Chapter 42 of the Code.

c. Institute Programs. The University shall use all Contributed Amounts solely to support the Institute Programs as stated in this Agreement

7. General Provisions.

a. The Donor has the right, in its reasonable discretion, to decline to provide any Contributed Amount in response to a University Grant Report or to terminate this Agreement if: (i) the University has not complied with any term of this Agreement; (ii) the Institute Programs are not advancing the Institute's Mission as stated in this Agreement; or (iii) such action is necessary to comply with any law applicable to the Donor. Such termination or decision not to provide any Contributed Amount in response to a University Grant Report shall be deemed effective upon the expiration of thirty (30) days from the date notice was provided by the Donor to the University. During the pendency of this notice of termination period, the Donor has no obligation to provide any Contributed Amount. If the Donor terminates this Agreement, the University shall return any uncommitted Contributed Amount to the Donor within sixty (60) days of such termination.

b. The University has the right, in its reasonable discretion, to terminate this Agreement if: (i) the Donor has not complied with any term of this Agreement; or (ii) such action is necessary to comply with any law applicable to the University. If the University terminates this Agreement, the University shall return any unexpended Contributed Amount to the Donor within sixty (60) days of such termination.

c. The Parties shall give each other a reasonable opportunity to review any significant public announcement related to the Agreement. The Parties shall not use each other's logos without the applicable Party's express written consent.

d. Except as permitted in Section 7(c), the University agrees to keep confidential and not to disclose to any third party the existence of or contents of this Agreement without express written approval from the Donor except as required by law. If the University is required to disclose the existence of or the content of this Agreement to any third party, besides its auditors or attorneys the University agrees to provide the Donor with at least ten (10) days' advance written notice of such disclosure.

e. The terms contained in this Agreement supersede all prior oral or written agreements and understandings between the Parties related to the matters contained in this Agreement and shall constitute the entire agreement between the Parties with respect to the matters contained in this Agreement.

f. In the event of a conflict between the provisions stated in the body of this Agreement and those stated in the Proposal, this Agreement shall control.

g. This Agreement shall not be modified or amended except by a writing duly executed by the Parties to this Agreement.

h. The provisions of this Agreement are deemed severable and should any part, term, or provision of this Agreement be construed by any court of competent jurisdiction to be illegal, invalid, or unenforceable, the legality, validity, and enforceability of the remaining parts, terms, and provisions will not be affected thereby.

i. No delay or failure on any Party's part to enforce any right or claim which it may have under this Agreement shall constitute a waiver of such right or claim. Any waiver by any Party of any term of this Agreement, or of any subsequent default under this Agreement in any one or more instances shall not be deemed to be a further or continuing waiver of such term or of any subsequent default hereunder.

j. The Parties acknowledge that this Agreement may relate to or be for the benefit of both Dennis Troesh and [REDACTED]. The Parties acknowledge that Dennis Troesh and [REDACTED] have certain rights under this Agreement. The University acknowledges and agrees that it will not directly or indirectly be entitled to the benefit of any waivers, indemnities, releases, or other provisions contained in any agreement between the Donor and Dennis Troesh or the Donor and [REDACTED]. Otherwise, this Agreement shall not confer any rights or remedies upon any third party other than the Parties to this Agreement and their respective successors and permitted assigns.

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have been redacted  
to honor their  
preference for  
anonymity.

k. The University may not transfer or assign its interest in the Agreement or any amount to be contributed pursuant to this Agreement without the express written consent of the Donor.

l. This Agreement will be governed, interpreted and enforced in accordance with the laws of the Commonwealth of Virginia, without regard to conflict of law provisions. The Parties agree that

any action or proceeding filed relating to this Agreement will be commenced and maintained exclusively in the state courts located in Arlington County, Virginia, or the federal courts located in the Eastern District of Virginia. Each of the Parties hereby expressly consents to the exclusive personal jurisdiction of such courts for any such action or proceeding.

m. All notices, approvals, or reports in connection with this Agreement shall be in writing and shall be deemed given when delivered personally by hand or one business day after the day sent by overnight courier (in each case with written confirmation of receipt or transmission, as the case may be) at the following address (or to such other address as a Party may have specified by notice to the other Party pursuant to this provision):

If to the University:  
Daniele Struppa, Ph.D.  
President's Office  
One University Drive  
Orange, CA 92866

If to the Donor:  
Charles Koch Foundation  
1320 N. Courthouse Road, Suite 500  
Attn: Grants Administrator  
Cc: General Counsel's Office

With a copy to:  
Harold W. Hewitt  
Office of the EVP/CO  
One University Drive  
Orange, CA 92866

n. This Agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement or direction. Copies of signatures (whether facsimile or other electronic transmission) to this Agreement shall be deemed to be originals and may be relied upon to the same extent as the originals.

The Parties have hereby executed this Agreement as dated below, but agree that this Agreement is effective as of the Effective Date.

**CHAPMAN UNIVERSITY**

By: 

Name: Daniele Struppa, Ph.D.

Title: President

Date: 10/20/16

**CHARLES KOCH FOUNDATION**

By: 

Name: Brian Hooks

Title: President

Date: 10/21/16

## ATTACHMENT A

### Chapman University Proposal to Support the Smith Institute for Political Economy and Philosophy (SIPEP)

#### **Mission**

SIPEP's broad mission is to reintegrate the study of the humanities and economics in the spirit of Adam Smith and to recombine research and undergraduate education as a discovery process in the spirit of Vernon Smith.

#### **Vision**

SIPEP will establish an innovative economic research institute that challenges the perceived tension between economics and the humanities, as follows:

##### *Teaching*

- The University will hire 11 full-time faculty affiliated with SIPEP to build strong academic connections with departments and units across the campus and to specifically strengthen the immediate connections between the Argyros School of Business and Economics (Argyros), the Economic Science Institute (ESI), the Institute for the Study of Economics, Religion and Society (IRES), and the Wilkinson College of Arts, Humanities, and Social Sciences (Wilkinson).
- The faculty will be expert, full-time scholars and will teach the core microeconomic courses required for a business degree.

##### *Research*

- SIPEP will produce academic-quality research that will inform the great economic issues of our time and provide support for SIPEP's mission.

##### *Undergraduate Opportunities*

- SIPEP will develop an undergraduate cluster/minor in a humanistic science of economics called Humanomics that brings the humanities and economics back together for students to learn how to think economically and act ethically in all aspects of their lives.
- Economics majors will be able to select upper division courses taught by scholars in one or more of four unique research areas all under one umbrella: experimental economics and game theory (ESI), religion and economic history (IRES), and political economy and philosophy (SIPEP). This will ensure that graduates of these programs are in high demand for positions as principled business leaders, acceptance into graduate programs, or careers in education and ideas.

##### *Institute Director*

- The University, according to its normal procedures, has selected Dr. Bart Wilson to be the director of the Institute. The Institute's activities and finances will be under the direction of the Institute Director, in accordance with applicable University procedures.

#### **Institute Programs**

##### Tenure-Track Professorships and Clinical Associate Professorships

The University will add 11 new faculty to enhance educational opportunities through teaching, research, and engagement in the programs of SIPEP. The new faculty will be hired in the fields including, but not



limited to, classical political economy, political economy, political philosophy, experimental economics, and economic history/history of economic thought, labor/econometrics, game theory, literature/humanities, and biological anthropology. Nine of the faculty will be tenure-track professors. Two of the faculty will be expert clinical professors of economics. All of the faculty will be affiliated with SIPEP, be given appointments in the Department of Economics, and, if appropriate, jointly appointed in other departments at the University.

There are currently four faculty members affiliated with SIPEP, who were selected by the University: Vernon Smith (Professor, Economics and Law); Bart Wilson (Professor, Economics and Law); Jan Osborn (Assistant Professor, English); and Keith Hankins (Assistant Professor, Philosophy). The first four new faculty referenced in this proposal will start providing services at the University by the fall 2017 semester. The next four new faculty referenced in this proposal will start providing services at the University by the fall 2018 semester. The final three faculty referenced in this proposal will start providing services at the University by the fall 2019 semester.

#### Eminent Visitor Professorship

The eminent visitor will spend a semester or year in residence interacting with SIPEP faculty regarding research, mentoring junior faculty, engaging students in informal brown bag discussions, guest lecturing in courses, and presenting a public lecture.

#### Post-Doctoral Positions

There will be up to five post-doctoral fellows annually. The post-doctoral fellows will spend two years in residence working on their research under the guidance of SIPEP faculty. They will also teach one course annually in economics, or their primary field of expertise.

#### Operations Coordinator

The operations coordinator will provide administrative support to SIPEP, manage academic-related responsibilities, oversee workflow, purchase and track supplies, maintain and submit records, respond to inquiries and disseminate information, assist with faculty searches, and coordinate special events, meetings and projects for SIPEP.

#### Research Support and Annual SIPEP Conference/Workshop

SIPEP's annual budget includes support for research, including conference travel and supplies, for faculty, post-doctoral fellows, and undergraduate students to advance SIPEP's mission.

The Annual Conference/Workshop will bring faculty to the University to engage in the exchange of ideas related to SIPEP's mission. The Annual Conference/Workshop has the potential to demonstrate the University's position as a leader in economics and ethics.

#### Selection

The selection of the foregoing faculty positions, staff positions, and fellowships will follow the University's normal procedures for faculty, staff, and fellows for the applicable academic units. This includes the core faculty of the hiring committees coming from SIPEP, and, if appropriate, being supplemented with faculty from ESI, IRES, and other departments in the University. As a matter of academic freedom for academic units at the University, individuals who will hold positions with or be

affiliated with SIPEP and the activities carried out through the Institute Programs must be approved by the SIPEP Director.

#### **Board of Advisors**

SIPEP will have an independent advisory board, which will confer once a year. The advisory board's purpose is to support SIPEP by make nonbinding recommendations for SIPEP's consideration, but will not have authority to act on behalf of SIPEP or to interfere with decisions made by SIPEP faculty.

Initial membership will be selected by the SIPEP Director in collaboration with the other faculty of the SIPEP, and the administration of the University. Any initial member recommended may be vetoed by either the faculty of SIPEP or the administration of the University.

Subsequent changes in the advisory board membership will be selected by existing advisory board members, in collaboration with the SIPEP Director, the initial faculty of SIPEP, and the administration of the University. Any new member recommended by the advisory board may be vetoed by any two of the other three constituencies.