

**Wednesday, August 31, 2005 Governance Subcommittee Meeting
(Approved March 20th, 2006)**

Cedars-Sinai Hospital
2225 Administrative Conference Room
8700 Beverly Blvd.
Los Angeles, CA

Los Angeles Public Library
Meeting Room A
630 W. 5th Street
Los Angeles, CA

Stanford University
Room S-363
318 Campus Drive West
Stanford, California

UCLA
Room 12-138A-CHS
10833 Le Conte Ave.
Los Angeles, CA

UC Davis Medical Center
Cancer Breakout Room
4501 X Street
Sacramento, CA

Salk Institute
The President's Room
1001 N. Torrey Pines Road
San Diego California

Sherry Lansing (chair)	Present
Phil Pizzo	Present
Brian Henderson	Absent
Os Steward	Present
Claire Pomeroy	Present
David Meyer	Present
(Designee for Keith Black)	
Jeannie Fontana	Present
(Designee for John Reed)	
Robert N. Klein	Present
Tina Nova (vice chair)	Present
Richard Murphy	Present

- Due to technical difficulty with the teleconference connection, proceedings heard previous to this point were not reported, nor herein transcribed. An excerpt of the proceedings is provided as follows.

Agenda Item #3-President's Report

a. Informational update on CIRM contracts

8/31/05 Meeting Minutes

*Chairperson Lansing introduced Agenda Item #3 and asked Zach Hall to lead the discussion.

First Item: Internal CIRM Organization chart was agreed upon by the members.

Essential Elements of the chart:

1. Office of the Chair reports to the President through the chair and Vice Chair
2. All other units report to the President

Dr. Pizzo: How does the Office of the Chair relate to the President?

Dr. Hall: With regard to assignment of duties and allocation of time, the Chair and Vice-Chair are responsible (for their own Office). They report to the President regarding Offices of the Chair. For issues regarding Personnel, these go directly to the President. All final decisions on merit increases and promotions, for example, would be subject to final approval by the President. The President will have final say on budgetary matters, subject to final approval by the ICOC. Units at the CIRM have been tasked with developing their own budgets. I have created a senior staff meeting to deal with operational issues. This consists of the President, the Chief Administrative Officer, the Science Officer, the Deputies to the Chair and Vice-Chair, Amy DuRoss, Mary Maxon, and Amy Lewis.

b. Consideration of CIRM Budget for FY 2005-2006

Dr. Pomeroy: I would suggest that this committee consider that out approved budget would not have to come back to this committee, but we might consider what most organizations do, which is defining what variance would require a consideration by the Governance committee.

Dr. Hall: I would like to consider the budget we're going to discuss today as the preliminary budget. Our hope is to bring back to you a better estimate that is based on the process that I've just described (with each unit developing its own budget).

Dr. Pomeroy: I would then just amend my suggestion that this interim process stay in place until we have that final budget that you refer to, Zach, and then go with the variance approach.

Mr. Barnes: The only other information I provided was that the Edelman contract and the Remcho Johansen that was approved. We should really be planning for minimal operational costs needed to keep the doors open and basically move us into our new location. They're more like successive budgets that will be either cast aside and adopted depending upon how much funding we have available.

The first alternative budget assumes that the only money that's available to us is what's left of the \$3 Million loan and the \$5 Million Dolby Grant. Under this particular funding level, our expectation is that there would be 20 persons employed by the institute during

the year. We would be hiring a Chief Information Services Officer and the Facilities Procurement Operations.

Dr. Hall: the third goal is to give all possible support to the Chair because our most critical need right now above all others is raising money.

Mr. Barnes: The major expenditures in this particular budget are personal services: the salaries and benefits of the 20 staff that we're talking about here and contracts. For the major interagency and agreement and contract expenditures, we have the Attorney General (\$270,000), Remcho Johanssen and Purcell (\$480,000), Edelman Communications, and the State Controllers' office which is providing us with a number of detailed support services related to our procurement programs and human resources.

The second category is meetings and conferences, including ICOC, Subcommittee and Working Group meetings. Just the meeting costs themselves; for ICOC meetings, for example, all ICOC member and staff travel is included in "Travel"—not in the meeting costs. We're also planning \$215,000 for our October Scientific Conference in San Francisco.

For the Furniture and Equipment category, there is \$120,000 down payment (at 84% discount) for the new furniture at CIRM headquarters and minor costs for equipment for new staff.

For Information Technology, these costs include our web program and website and also an estimate of \$150,000 to develop a new grants management program. Finally, there is "OE&E": operating expenditures and equipment, including office supplies, etc.

These calculations show that by mid-May we would run out of money. If we don't have more money by January to put into our administrative budget, we need to start taking actions to cut back. That would include scaling back contracts.

Dr. Hall: We'd also consider Personnel cuts.

Chairperson Lansing: In January, you would consider scaling back, if necessary, so that we can operate for longer.

Mr. Klein: through June 30th, the end of our fiscal year.

Dr. Pizzo: Missing from the budget, understandably, is the award of Training Grants.

Mr. Klein: If we fund the Training Grants (through Bond Anticipation Notes) then concurrent with that would include a little less than \$1.2 Million in overhead funding. The intent is to start with the conservative case and build from there.

Dr. Hall: That is why we have "three tracks" of budgeting which we can essentially move back and forth among. [Budget Alternative 1: No New Funding (\$3M in General

Fund loan and \$5M in Dolby Grant); Budget Alternative 2: \$21.5M in BAN Proceeds;
Budget Alternative 3: \$100M in BAN Proceeds]

Mr. Klein: Progressively, we will fund a seed grant after the training grant through the BAN program, for example...

Dr. Hall: ...which is why we need to continue our strategic planning: so that we are ready when the money does come.

Mr. Klein: The budget is set up assuming we do not have any other charitable contributions—only BAN monies.

Chairperson Lansing: Is this “Worst-case” scenario budget the tightest budget we can live with?

Mr. Barnes: Yes.

Mr. Hall: For the moment, we are balancing our need to be economical with our need to be prepared in case we do get money, and that will be evaluated at the end of the year.

Dr. Pizzo: From a communications standpoint, we don’t really achieve “life” until we get at least to Budget Alternative 2 and we’ve funded something. We need to be proactive in our communications to avoid being accused of failing in our primary set of goals which is at least to get to Option 2.

Mr. Barnes: For Budget Alternative 2, with \$21.5M assumed in BAN proceeds, we expect there will be issuance costs, and then 5.8%—or \$1.247M in overhead, leaving us with \$16,353M for grants.

To support grant-making activity, there will be some operational changes necessary. We assume there will be 22 employees, two by October 1st who would be charged with Grants Management: Grants Technical Assistant and Grants Management Officer. We would also allocate \$250,000 to develop a Strategic Plan. We feel we need an outside contractor.

As for Meetings and Conferences, we have budgeted \$15,000 for a series of meetings called “Science Project Meetings.” We’ve also budgeted for an additional Grants Working Group Meeting.

Chairperson Lansing: May I have more information on the Strategic Plan?

Dr. Hall: We are charged with spending \$3B to get this huge project going. It is not enough just to say “Let’s put out some RFA’s and let people come in.” We want to differentiate between the things that we need early on and the middle and the late. We have many constituencies to hear from. The planning process will be quite complicated and public.

There is no way with the current staff limits we can manage this task without additional help. We can't wait until we have \$100M and then start a 9-month planning process.

Chairperson Lansing: I understand. I was reacting to the number because it is a big number.

Dr. Hall: We will have more than one meeting bring in people to figure it out. And we may have some very specialized problems. It is not just the consultant's fees, it includes the costs for these meetings.

Mr. Klein: For the scale of the problem and the complexity, the \$250,000 will help us build a good fundamental strategic plan, but we'll have to refine it over time.

Dr. Pomeroy: I'd like to strongly support allocation for strategic planning. I actually thing that \$250,000 is not that much money for ensuring that all of our constituencies have input into a proper strategic planning process. And then I would like to get clarification on when we are going to bring bond counsel in to get an explanation of bonds and bond anticipation notes and tax-exempt versus taxable bonds.

Mr. Klein: Let me call you to discuss and we could perhaps get some written materials together.

Dr. Murphy: For the strategic planning process, I would like to look inside before we look outside. We have a very talented staff and a very talented community of stem cell people to help us. My experience with outside consultants has been much less hopeful that they could give us the kind of creative, insightful direction our own community could do.

Dr. Hall: The point is they wont tell us what to do; they will manage the process. I agree with Claire—for a program of this size, this is probably a bare-bones budget.

Dr. Murphy: I don't know what the correct number is, I am philosophically in favor of looking internally for help with this project.

Dr. Hall: Logistically putting together a major scientifically strategic and financial plan for \$3 Billion is a really major job--just the writing and recording, synthesizing, trying to put it altogether. We will present to the ICOC a plan for how we plan to develop the plan.

Dr. Nova: I want to challenge the team a bit on the negative \$500,000 on Budget Alternative 1. In my experience, it is very difficult halfway through a budget cycle to recover over \$100,000 per month at the end just because of the way the allocations and the financials will fall. Even if you lay off personnel, you don't change the cost of infrastructure.

Dr. Hall: We do have the advantage of not paying rent. And we will have to look at a hibernation state, I think we can do that.

Dr. Pizzo: I worry about cutting back Communications in the “hibernation state” since external advocacy and communication offers our best ability to stay in business and do what is necessary to grow.

Dr. Hall: We are not going to jettison communications, but we will have to look at all of our operations and do what we need to do to survive.

Mr. Barnes: Finally, Budget Alternative 3 is the “good news budget”: \$100M in BAN proceeds. This would involve a more fully realized grant program, 13 additional staff positions, an additional scientific conference, and a full roster of Working Group meetings.

Motion:

- **Mr. Klein: Motion “Provisional Budgets, subject to additional refinement, are being brought forward [to the ICOC] with three variations”**
- **Dr. Meyer: Seconds**
- **Mr. Klein: Approval to include \$215,000 for October Scientific Conference.**

Vote:

- **All in favor; no opposition.**
- **Motion carried**

Agenda Item #4-Consideration of CIRM “Naming” programs

Mr. Klein: The Bond anticipation notes are structured so that these are major philanthropic foundations or philanthropic individuals who will be purchasing these bond anticipation notes with a clear disclosure that if the lawsuit were lost by the CIRM, that their Bond Anticipation note, which is a bond or form of a loan, would then become a grant to the State so the State has no risk. Given that these institutions’ primary mission is medical and scientific research, they will have accomplished their primary mission, but this is a significant commitment to our programs to support us in moving forward. The thought is that in the case where they buy the bonds and it becomes contribution because we’ve lost the lawsuit—which we do not expect to do—or at the end of the bond anticipation notes, a time period when bonds are issued and they could be paid back. The proposal is that the foundation or the individual may be able to designate that program of fellowships would be named after that institution. For example, let us say that the Dolby’s were to buy \$29 Million in Bond anticipation notes so that they could have the name the Dolby/CIRM scholars, and if they converted that purchase into a contribution to further this program as the CIRM advanced, that name would be permanent. That provides a recognition for the tremendous contribution those institutions would have made.

Dr. Murphy: If the bonds are issued and we pay these folks and they get bond income off of it, are you still suggesting there be a naming opportunity there?

Mr. Klein: If they are paid back and they do not contribute the money to CIRM, they would not be—there would not be a naming program of the fellowship program after them.

Chairperson Lansing: What is the minimum?

Mr. Klein: We're looking at \$10-\$20 Million. For example, if two foundations did \$10 Million each, they could have a shared name, but we're not going to go any shallower than that.

Dr. Steward: I agree with this. Given the likelihood that really the legal issues may go beyond a year and that there's now maybe a good probability that you are going to end up with a naming opportunity anyway, why not just go forward with that in the beginning?

Mr. Klein: I would say that the Treasurer is going to approve qualified bidders. I would intend to go through a process with Zach to make sure that all those qualified bidders are persons that have a name that we want associated before offering.

Dr. Pomeroy: I guess I'm still a little bit uncomfortable that the process for determining a naming opportunity feels quite vague at this point. Could we incorporate some language about that into the motion?

Mr. Klein: So the motion could very specifically state as follows: That the Governance committee recommends to the board that in the discretion of the Executive committee, which is the President, the Vice chair, and the Chair, offering a naming opportunity for the fellowship program and/or the seed money grant program could be made available. If the BAN's are not paid back within the year, the naming would attach to the program.

Chairperson Lansing: I think you need to put in that's it's no less than \$10 Million.

Mr. Klein: It is no less than \$10 Million, and that the Treasurer will negotiate the final terms of the BAN purchase so that there is a constitutional officer that is implementing the BAN sale, and there are no conditions that influence the ward of any grant.

Dr. Pomeroy: Can you just clarify what program is going named for this \$10Million?

Mr. Klein: Well, the infrastructure training program is a \$20 Million program; and if two individual groups were to each put up then, it would be co-named.

Motion:

- **Mr. Klein: Motion** “That the Governance committee recommends to the board that in the discretion of the Executive Committee, which is the President, the Vice Chair, and the Chair, naming opportunities for the fellowship program and/or the seed money grant program could be made available. If the BAN's are not paid back within the year, the naming would attach permanently to the program”

- **Dr. Pizzo: Seconds**

Vote:

- **All in favor; no opposition.**
- **Motion carried**

Agenda Item #5-Consideration of ICOC Bylaws

Mr. Harrison: We have drafted these bylaws pursuant to a requirement in Proposition 71 that the ICOC adopt rules and guidelines to govern the operation of the ICOC. We have looked at the bylaws of other state agencies and modeled these bylaws on the bylaws of those agencies.

The Bylaws generally are quite straightforward. They describe, based on Prop. 71 itself, the authority of the ICOC, the powers and duties of the ICOC, the membership of the ICOC, including things like compensation, term, and conflicts of interest. The bylaws provide for the ICOC to establish subcommittees and to define the mission, jurisdiction, and size of each subcommittee with the concurrence of the chairperson of the ICOC. The bylaws provide in the event that a subcommittee needs the specific expertise of a member, that the size of a subcommittee can be expanded in between meetings of the ICOC. The ICOC would retain the authority to ultimately determine the appropriate size of the committee.

I'd like to draw your attention to Article IX, which pertains to voting. What we've done here is to implement a practice that the board has already adopted, which is to permit amendments to pending motions to be made with the concurrence of the maker of the motion and the second unless a member of the ICOC requests a vote on the proposed amendment, in which case action on the proposed amendment takes place before a vote on the primary motion.

Under Roberts Rule of Order, amendments to motions are acted on and approved by a vote of the entire body before action is taken on the pending motion. It's important to note that even under the friendly amendment proposal that we've made here, any member of the ICOC can request a vote of the entire board on an amendment. We have set forth in the bylaws a requirement that a vote of 70% of a quorum of the ICOC be required in order to modify the policy enhancements adopted by the ICOC at last July 12th and August 5th Meetings.

Dr. Murphy: I guess one area that looks like it has only been touched upon, are the roles and responsibilities of the Chair and the President.

Dr. Pizzo: It's sort of in the interest of time, this is obviously an important topic, and I wonder if we're doing due diligence to it by responding to it now without having a chance to really go through it more carefully?

Mr. Harrison: The duties of the Chair and Vice Chair and President are set forth in large measure in the proposition itself.

Dr. Murphy: I guess I would encourage us to think about expanding this because we do know that for the health of the organization, we have to get a better sense of these differing roles.

Chairperson Lansing: Let's take the time, let's do it right. We're in absolutely in no rush, but we have started the process.

Following a request for public comment at each location, the meeting was adjourned.