

Memorandum

To: Members of CFAOC

Date: January 21, 2011

From: Ruth Holton-Hodson
Lindsey Ross

Subject: **Status of SB 1064 (Alquist), 2009-10**

Background

In 2009 the CFAOC considered legislation to reform government practices, improve transparency, and measure performance of the California Institute of Regenerative Medicine. Based on findings from a 2009 Little Hoover Commission (LHC) report, *Stem Cell Research: Strengthening Governance to further the Voters' Mandate, The Little Hoover Commissions Review of the California Institute for Regenerative Medicine*, the report recommended how CIRM could carry out the mission of Proposition 71 with greater accountability and transparency. This memo outlines what was proposed legislatively and ultimately enacted.

LHC presented the report at the CFAOC meeting on January 26, 2010. The CFAOC unanimously endorsed the recommendations relating to improving CIRM's financial practices and performance, 2 through 4, as set forth in the LHC report. The Attorney General's office had advised the CFAOC that it could only take action on those recommendations that related to CFAOC's jurisdiction.

Senator Alquist introduced SB 1064 to implement the LHC's recommendations. When first introduced, SB 1064 was supported by the State Controller's Office, the CFAOC and the Little Hoover Commission. The SCO sent a letter of support, stating that SB 1064 would implement the most relevant findings of the LHC report, and make practical changes to the operation of CIRM (see attached). CIRM originally opposed the bill, stating it "does not advance the agency's critical medical mission and jeopardizes the agency's success to date."

SB 1064 was amended several times to address CIRM's concerns, who ultimately supported the bill. Many of the provisions supported by the SCO and CFAOC, including giving the CFAOC the ability to conduct performance audits, were amended out of the bill. Below is a summary of the key provisions in the original version of this bill and the final version.

SB 1064 (As Introduced)

Key Provisions:

- Reduce the terms of the chair and vice chair of the ICOC to four-year terms, and require the terms to be staggered.
- Specify that the chair and the vice chair shall be chosen from and elected by the ICOC board, and remove the requirement for constitutional officers to nominate candidates.
- Clarify the roles and responsibilities of the ICOC chair and CIRM president, specifying that the chair's role is to provide leadership to the ICOC and does not include tasks associated with the day-to-day management of the institute, which would fall to the CIRM president.

- Require CIRM to establish, under guidance from the ICOC: 1) a succession plan to address changes in leadership in CIRM and ICOC as specified; and 2) a transition plan to address the expiration of current bond funding, and submit the plan to the Governor, Controller, and Legislature by January 31, 2012.
- Requires the Controller, under guidance of the CFAOC to annually commission a performance audit of the ICOC's activities from a certified independent auditing firm, and requires the ICOC to pay for all costs of the audit. The State Controller would review the performance audit and include the review in its annual report.
- Codify the requirement that all public meeting minutes include a summary and disclosure of vote tallies and recusals, and require ICOC to amend all past minutes to include this summary.
- Codify the existing CIRM regulations regarding Intellectual Property (IP) standards that require grantees to submit plans to provide low-income Californians access to drugs that are entirely or partly a result of CIRM-sponsored research.
- Codify the existing IP regulation that requires grantees to provide drugs to state and local government-funded programs at one of the three benchmark prices in the California Discount Prescription Drug Program.
- Require all revenues received from the IP agreements to be deposited in the state General Fund.
- Eliminates the 50-employee cap for CIRM.
- Eliminates the 15-scientist limit on the peer review process, and requires that all grant applications received be sent to peer review by the Scientific and Medical Research Funding Working Group prior to any other process.

SB 1064 (Chaptered)

Key Provisions:

- Maintained current selection process and terms for Chair and Vice Chair. Both positions are nominated by constitutional officers and elected by the ICOC, and both serve for a period of six years.
- Require CIRM to establish, under guidance from the ICOC: 1) a succession plan to address changes in leadership in CIRM and ICOC as specified; and 2) a transition plan to address the expiration of current bond funding, and submit the plan to the Governor, Controller, and Legislature by January 31, 2012.
- Requires CIRM to initiate a performance audit every three years, beginning with the 2010-11 fiscal year. Specifies administrative costs for the audits must be paid by CIRM. The Bureau of State Audits or whomever else CIRM selects may conduct the audit. (It does not specify that the report has to be given to the Controller, CFAOC, Legislature, or the Administration). The performance audit shall examine the functions, operations, management systems, and policies and procedures of the institute to assess whether the institute is achieving economy, efficiency, and effectiveness in the employment of available resources. The performance audit shall be conducted in accordance with government auditing

standards, and shall include a review of whether the institute is complying with ICOC policies and procedures. The performance audit shall not be required to include a review of scientific performance.

- Codify the requirement that all public meeting minutes include a summary and disclosure of vote tallies and recusals, and require ICOC to amend all past minutes to include this summary.
- Requires CIRM to adopt Intellectual Property (IP) standards that require grantees to submit plans to provide low-income Californians access to drugs that are entirely or partly a result of CIRM-sponsored research.
- Require all revenues received from the IP agreements to be deposited in the state General Fund.
- If a grantee licenses an invention or technology as a result of research funded by CIRM, the grantee will be required to pay 25 percent of the revenues it receives in excess of five hundred thousand dollars (\$500,000) to the General Fund. The bill also lays out alternative requirements for repaying the general fund for inventions and technologies.
- Eliminates the 50-employee cap for CIRM.
- Requires the peer review panel to be made up of both scientists and patient advocates, but limits the number of scientists on a peer review panel to 15. Only the scientist members of the Scientific and Medical Research Funding Group can score the grant and loan applications for scientific merit.



JOHN CHIANG
California State Controller

March 25, 2010

The Honorable Elaine Alquist
California State Senate
State Capitol, Room 4013
Sacramento, CA 95814

RE: Support for Senate Bill 1064

Dear Senator Alquist:

I write in strong support of Senate Bill 1064 and thank you for introducing this important measure.

SB 1064 would implement the most relevant findings of the June 2009 Little Hoover Commission report, *Stem Cell Research: Strengthening Governance to Further the Voters' Mandate*, which highlighted management shortcomings and legislative obstacles to the California Institute for Regenerative Medicine's (CIRM) success. In January, the Citizens' Financial Accountability Oversight Committee, a Committee which I chair, unanimously endorsed the recommendations for greater transparency and accountability included in this bill.

Your measure would make practical changes to the operation of the institute, including the establishment of clearer lines of authority, succession planning for the institute's 2014 disestablishment date, and flexibility in staffing. This measure would also ensure optimal performance by the institute and its governing council by requiring recurring performance audits. Additionally, SB 1064 guarantees that Californians will have access to drugs created by research funded by the CIRM at a discounted rate.

As the state's Chief Financial Officer and chair of the CFAOC, I am committed to CIRM reaching its highest potential with full public transparency and benefits accruing to the taxpayers who funded the institute. Thank you again for your leadership on this important issue, and I look forward to working with you to ensure this bill's timely enactment.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

cc: Senate Health Committee