

CIRM Operations Budget Commentary – 2009-10

Introduction:

- In April CIRM received \$505M from bond sales due to the efforts of Chairman Klein, James Harrison, Lynn Harwell and others on the CIRM staff in close partnership with the offices of the Governor and the State Treasurer. Approximately \$250M will be used to repay a loan from the Pooled Money Investment Account, and approximately \$20M will be set aside to pay capitalized interest and cost of issuance, leaving CIRM with approximately \$235M, of which approximately \$32M is designated for major facilities grants to Buck, UC Santa Cruz and UC Merced. In addition, CIRM received approximately \$43M from the Pooled Money Investment Account to fund the Sanford Consortium grant. CIRM therefore has an additional \$202M for research funding. With the existing bond funds, CIRM has approximately \$370M secure in the bond fund which will allow CIRM to meet all of its obligations until the end of 2010, or a little further depending on research funding decisions made by the ICOC over the coming months. However, California's economic difficulties and problems related to the State budget are continuing and it is not certain how these factors will affect future bond sales.
- CIRM staff has been prudent in constructing a budget for operations during FY 09-10 that includes only the essentials required to operate the agency and meet CIRM's mission and obligations over the next year.
- The proposed budget for FY 09-10 is 3% less than the budget approved by the ICOC last year even though the size of CIRM's staff will grow (from 31 in July 2008 to 47 by June 2010 – currently at 40) and CIRM's grant portfolio is expected to increase by more than \$330M during that period.

Risks and Opportunities:

Risks:

- CIRM could face the loss of key staff or excessive turnover of staff. This is a risk for CIRM because it is a small organization with very little redundancy in staffing. Management works hard to minimize turnover through concerted efforts to ensure a stimulating and supportive work environment, recognition of achievement, advancement within the agency and benefits where possible. For science officers and members of the senior staff, this includes the ability to travel to scientific conferences and to meet with peers, including scientists, government officials (in the US and collaborating countries), other potential funding partners and members of the commercial sector for the purposes of advancing CIRM's programs and its position as a world leading organization.

The agency has the ability and agility to find new key staff members within the cap of Administrative and Grant Management Budgets, and has a plan to reach maximum staffing of 50 within 2 years. A copy of that plan is attached [Those positions that are currently vacant are indicated as "TDB" followed by the fiscal year in which they are expected to be filled]

It is anticipated that a senior appointment for Strategic Financing will be proposed to the Governance Committee of the ICOC in the next 6 months, to accommodate the loss of this critical expertise with the possible exit of the Chair at the end of 2010. However that position is not included in this budget.

- Additional funds might not become available to support CIRM programs.
There are sufficient cash reserves on hand to accommodate the CIRM budget for FY 09-10 and the first half of FY 10-11 and the Office of Administration and Office of the Chair are closely linked to ensure that additional funding will be available beyond that. This budget includes funds for travel and legal support to aid in that process.
- CIRM's strong community support could decline with continued stress on the State's economy.
It is important to reinforce the benefits that are flowing from the CIRM program along with the restraints that have been internally imposed to demonstrate that CIRM is acting with lean fiscal responsibility. For example, staff salaries of \$150,000+ have been frozen for >12 months and only extremely modest merit increments have been provided to staff with lower salaries and even that was after a salary freeze of 10 months. The Director of Communications has established a more accommodating and information-rich web site, has a comprehensive educational program and has sponsored a series of public meetings using grantees to communicate new developments in research. This budget includes funds to continue those efforts.
- CIRM's ability to track and report on its grant research portfolio needs improvement.
There is a critical need to have a robust electronic grants management system for managing grants, reporting outcomes, monitoring finances, complying with regulations and meeting other requirements as they arise. CIRM had been testing a grants management program that is not able to meet all of its needs. CIRM has revised its approach and has purchased, or is investigating, components of a grant management system that will be flexible enough to handle its evolving programs and processes. Funds for this process are included in this budget. In the long run it is expected that this new approach will be less costly to CIRM than the previous approach.

Opportunities:

- The opportunity to lead the global initiative in stem cell research is within the reach of CIRM.

The budget includes funds to pursue opportunities to work and partner with government agencies (e.g. NIH, FDA, state stem cell agencies, international public research funding agencies) and societies (e.g. International Society for Stem Cell Research). CIRM has developed collaborative programs with five counties so that their scientists can work directly with California scientists. Agreements with five more countries are in different stages of negotiation.

- The CIRM program is entering the translation and preclinical pipeline for support of projects with high probability of clinical success.
This provides the opportunity to work with biotechnology companies and increasingly, linkages with major pharmaceutical companies. The budget includes funds for legal and financial consultations to develop programs for providing loans and grants to companies. It also includes funds to develop forums with companies so that interests and resources can be harmonized to advance the clinical pipeline and to encourage trials aimed at addressing disease conditions and injury.
- There are new opportunities to leverage CIRM funding.
CIRM is exploring new opportunities to increase funding for its mission through many vehicles including collaborative funding partnerships, loan guarantees, co-investment in infrastructure and technology. They all could expand considerably CIRM's influence on research and clinical trials. The budget provides for further investigation and negotiation of complementary capacity in the US and worldwide.
- CIRM will expand its pool of science officers.
This budget provides funding for 3 additional science officers so that CIRM can expand its capacity to initiate, monitor and enable research from the basic science and training grants to more clinical programs. Many of the more clinical programs will have complicated milestones and "go-no-go" decision points, detailed risk and efficacy data and decisions regarding maturity and development with multiple partners. Such evaluation will require new capacity in the Science Office and the Office of the General Counsel.
- CIRM will expand its internal finance office.
With CIRM's increasing staff numbers and growing portfolio additional capacity is required in the finance office to handle the workload. Funding for an additional finance officer is built into this budget.

The 6% cap in operating expenses –

Proposition 71 limits CIRM's operating expenses to 6% - 3% for General Administration plus 3% for Grants Administration. Below are two ways to look at CIRM's operating expenditures relative to the 6% cap.

1. Global - Based on the total appropriation of \$3B in Proposition 71, \$180M is available for the Institute's operations. To date, CIRM has expended \$27.3M for operations. Adding the funds requested in the FY 09-10 budget will bring the total to \$38.3M at the end of June 2010, leaving a balance \$141.7M.
2. Bond sales – An alternative means to evaluate operating expenditures is to compare them to bond sales, as an indicator of whether or not CIRM's operating expenses are in line with its ongoing financing. That approach is summarized in the table below and shows that at the end of FY 09-10 CIRM's cumulative total expenses for operations will be well under 6% of its total bond sales to date.

Total bond sales to date	\$755M
6% of \$755M	\$45.3M
Total spent on operations (all years, thru 05/09)	\$27.3M
Total requested for 09-10	\$11M
Total	\$38.3M