

BEFORE THE  
GOVERNANCE SUBCOMMITTEE OF THE  
INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE  
TO THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE  
ORGANIZED PURSUANT TO THE  
CALIFORNIA STEM CELL RESEARCH AND CURES ACT  
REGULAR MEETING

LOCATION: TELEPHONIC

DATE: THURSDAY, APRIL 5, 2007  
3 P.M.

REPORTER: BETH C. DRAIN, CSR  
CSR. NO. 7152

BRS FILE NO.: 78232

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THURSDAY, APRIL 5, 2007

03:06 P.M.

CHAIRPERSON LANSING: THANK YOU. AND, AGAIN, I APOLOGIZE. WE HAD A LITTLE TECHNICAL DIFFICULTY HERE. SO I WANT TO WELCOME EVERYONE TO THE NINTH MEETING OF THE GOVERNANCE SUBCOMMITTEE OF THE ICOC. WE HAVE PARTICIPANTS IN EIGHT LOCATIONS ON THIS CALL AND ARE JOINED BY THE STAFF AT CIRM IN SAN FRANCISCO. SO WE ARE HERE IN LOS ANGELES. AND ARE WE ON THE LINE WITH SALK YET?

MS. KING: I THINK NOT.

CHAIRPERSON LANSING: THAT'S OKAY. CARLSBAD?

MS. KING: I THINK DR. NOVA MAY ACTUALLY NOT BE ABLE TO JOIN US, BUT AFTER THAT I THINK WE'VE GOT EVERYBODY.

CHAIRPERSON LANSING: CONNECT?

MR. ROTH: YES. HI.

CHAIRPERSON LANSING: WHO IS ON THE LINE IN CONNECT?

MR. ROTH: DUANE.

CHAIRPERSON LANSING: AND KECK?

DR. HENDERSON: YES. BRIAN HENDERSON.

CHAIRPERSON LANSING: AND STANFORD?

MR. KLEIN: YES. BOB KLEIN IS HERE.

1 DR. PIZZO: PHIL PIZZO IS HERE.  
2 CHAIRPERSON LANSING: CIRM IN SAN FRANCISCO?  
3 MS. KING: WE ARE HERE.  
4 CHAIRPERSON LANSING: AND THE CITY ATTORNEY'S  
5 OFFICE AT THE SAN FRANCISCO AIRPORT.  
6 MS. KING: HAS NOT JOINED US YET.  
7 CHAIRPERSON LANSING: UC DAVIS?  
8 DR. POMEROY: HERE.  
9 CHAIRPERSON LANSING: OKAY. SO I WANT TO  
10 THANK YOU ALL FOR PARTICIPATING IN THIS IMPORTANT  
11 MEETING LEADING UP OUR ICOC MEETING ON APRIL 10TH. SO,  
12 MELISSA, WOULD YOU PLEASE LEAD US IN A ROLL CALL?  
13 MS. KING: BRIAN HENDERSON.  
14 DR. HENDERSON: HERE.  
15 MS. KING: BOB KLEIN.  
16 MR. KLEIN: HERE.  
17 MS. KING: SHERRY LANSING.  
18 CHAIRPERSON LANSING: HERE.  
19 MS. KING: RICHARD MURPHY. TINA NOVA. PHIL  
20 PIZZO.  
21 DR. PIZZO: HERE.  
22 MS. KING: CLAIRE POMEROY.  
23 DR. POMEROY: HERE.  
24 MS. KING: JEANIE FONTANA FOR JOHN REED.  
25 DUANE ROTH.

1 MR. ROTH: HERE.

2 MS. KING: DAVID SERRANO-SEWELL. OSWALD  
3 STEWARD. I KNOW DR. STEWARD WAS ON EARLIER. ARE YOU  
4 MUTED?

5 DR. STEWARD: YES. SORRY. HERE I AM.

6 CHAIRPERSON LANSING: OKAY. AGENDA ITEM NO.  
7 3, WHICH IS A REVIEW OF THE 2005 AND 2006 ANNUAL  
8 FINANCIAL BUDGET, HAS ACTUALLY BEEN POSTPONED UNTIL THE  
9 APRIL 10TH ICOC MEETING. AT THE APRIL 10TH ICOC  
10 MEETING IN SACRAMENTO, THE FINANCIAL AUDIT FIRM --  
11 WHICH I AM NOT GOING TO SAY CORRECTLY, SO CORRECT ME --  
12 MACIAS, GINI & O'CONNELL WILL BE THERE IN PERSON TO  
13 PRESENT THIS AUDIT.

14 NOW I'D LIKE TO MOVE TO AGENDA ITEM 4, WHICH  
15 IS THE CONSIDERATION OF CIRM'S MERIT AND PROFESSIONAL  
16 DEVELOPMENT PROGRAM. I'D LIKE TO ASK OUR CHIEF  
17 FINANCIAL AND ADMINISTRATIVE OFFICER, LORI HOFFMAN, TO  
18 PRESENT THIS ITEM.

19 MS. HOFFMAN: YES. THANK YOU, CHAIR LANSING.  
20 I'M GOING TO ASK OUR CHIEF HUMAN RESOURCES OFFICER,  
21 ALEXANDRA CAMPE, TO WALK US THROUGH THE DETAILS OF THIS  
22 ITEM. SO ALEXANDRA.

23 MS. KING: BEFORE YOU GET STARTED, COULD I  
24 JUST ASK WHO JOINED?

25 DR. MURPHY: RICH MURPHY. SORRY I'M LATE.

1 MS. CAMPE: THANK YOU. THIS IS ALEXANDRA,  
2 AND I WOULD LIKE TO BRING FORWARD THE REMAINING  
3 COMPONENTS OF CIRM'S COMPENSATION PROGRAM FOR YOUR  
4 CONSIDERATION AS PROPOSED AT LAST YEAR'S MEETING.

5 AS MANY OF YOU KNOW, THE GOVERNANCE  
6 SUBCOMMITTEE APPROVED AND RECOMMENDED TO THE BOARD LAST  
7 MAY 2006 AND THE BOARD EVENTUALLY APPROVED ON JUNE 2,  
8 2006, THE SALARY RANGES FOR TEN SALARY LEVELS,  
9 INCLUDING PLACEMENT OF CURRENT STAFF POSITIONS WITHIN  
10 THE APPROVED RANGES AND LEVELS. AS NEW POSITIONS ARE  
11 CREATED AND APPROVED BY THE PRESIDENT, POSITIONS ARE  
12 PLACED INTO THE APPROVED SALARY RANGES AND LEVEL BASED  
13 ON DUTIES AND RESPONSIBILITIES, REPORTING RELATIONSHIP,  
14 AND EQUITY WITHIN THE DEPARTMENT OR WITHIN THE  
15 ORGANIZATION.

16 SO WHAT I WOULD LIKE TO DO NOW IS PRESENT THE  
17 HIGHLIGHTS OF THE REMAINING COMPONENTS NECESSARY FOR A  
18 COMPLETE CIRM COMPENSATION PROGRAM.

19 FIRST IS THE MERIT PROGRAM. WE WOULD LIKE TO  
20 HAVE A MERIT AND/OR COST OF LIVING ADJUSTMENT FUNDING  
21 POOL OF 0 TO 5 PERCENT ANNUALLY FOR SALARY LEVELS 1  
22 THROUGH 9. LEVEL 10, WHICH IS THE PRESIDENT AND THE  
23 CHAIR AND VICE CHAIR, WILL NOT INCLUDE THOSE POSITIONS  
24 BECAUSE, OF COURSE, WE KNOW THE ICOC APPROVES THE  
25 SALARY FOR THOSE POSITIONS. WE WOULD NOT BE ALLOWING

1 EMPLOYEES MORE THAN A 5-PERCENT MERIT AND/OR COST OF  
2 LIVING INCREASE IN ANY ONE FISCAL YEAR. THE PROGRAM,  
3 THE MERIT AND COST OF LIVING INCREASES WOULD BE  
4 IMPLEMENTED ANNUALLY AND EFFECTIVE AS OF JULY 1 OF EACH  
5 FISCAL YEAR. AND THE MERIT INCREASE WOULD BE  
6 DETERMINED THROUGH A DOCUMENTED PERFORMANCE REVIEW BY  
7 THE INDIVIDUAL SUPERVISOR.

8 IN ADDITION, WE'RE LOOKING AT ALLOWING A  
9 MERIT NONBASE-BUILDING LUMP SUM INCREASE WHICH MAY BE  
10 IMPLEMENTED IN LIEU OF A MERIT BASE-BUILDING INCREASE  
11 IN A GIVEN YEAR. WE WOULD BE ALLOWING AN EMPLOYEE,  
12 THAT THEY MUST BE ON PAYROLL AT LEAST SIX MONTHS PRIOR  
13 TO THE DATE OF A MERIT INCREASE OR DECEMBER 31ST OF  
14 EACH YEAR TO BE ELIGIBLE FOR A MERIT INCREASE UNLESS  
15 THERE WAS AN EXCEPTION BY THE PRESIDENT OR THE CHIEF  
16 FINANCE ADMINISTRATIVE OFFICER.

17 A MERIT INCREASE SHALL NOT PUT AN EMPLOYEE  
18 ABOVE THE SALARY RANGE WITHOUT APPROVAL BY THE ICOC.  
19 AND THE COST OF LIVING SHOULD BE LINKED TO A SALARY  
20 RANGE ADJUSTMENT, BUT CIRCUMSTANCES MIGHT EXIST TO DO  
21 ONE WITHOUT THE OTHER.

22 ANOTHER COMPONENT OF THE COMPENSATION PROGRAM  
23 AT CIRM WOULD BE A PERFORMANCE AWARD PROGRAM. WE DID  
24 MENTION THIS LAST YEAR. AS MANY OF YOU KNOW,  
25 PERFORMANCE AWARD PROGRAMS ALLOW US TO RECOGNIZE

1 EXCEPTIONAL STAFF CONTRIBUTION ON A TEAM OR PROJECT  
2 OVER A PERIOD OF TIME, AND IT WOULD BE SOMETHING  
3 THEY'VE DONE THAT IS SIGNIFICANTLY ABOVE AND BEYOND  
4 ONE'S REGULAR DUTIES AND RESPONSIBILITIES.

5 WE'RE PROPOSING TO ALLOW FUNDING OF 1 PERCENT  
6 APPROPRIATION OF STAFF SALARIES AS OF JULY 1 OF EACH  
7 FISCAL YEAR FOR SALARY LEVELS 1 THROUGH 6 ONLY.  
8 THEREFORE, PERFORMANCE AWARDS ARE ONLY ELIGIBLE --  
9 PEOPLE ARE ONLY ELIGIBLE IF THEY'RE IN SALARY LEVELS 1  
10 THROUGH 6. THE CRITERIA FOR THE PERFORMANCE AWARD  
11 PROGRAM WILL BE APPROVED BY THE PRESIDENT OR CHIEF  
12 FINANCE AND ADMINISTRATIVE OFFICER.

13 ANOTHER COMPONENT WOULD BE WHAT THEY CALL A  
14 SPOT AWARD, AND SPOT AWARDS RECOGNIZE STAFF, AGAIN, AT  
15 LEVELS 1 THROUGH 6 ONLY ON CONTRIBUTIONS OR A TEAM OR  
16 PROJECT OR FOR SPECIFIC ASSIGNMENTS OR TASKS THAT THEY  
17 COMPLETED. THIS FUNDING FOR THE SPOT AWARD WOULD  
18 ACTUALLY BE PART AND BE ALLOCATED FROM THE PERFORMANCE  
19 AWARD BUDGET AND WOULD BE NOT MORE THAN 10 PERCENT OF  
20 THE OVERALL PERFORMANCE AWARD ALLOCATION IN ANY GIVEN  
21 FISCAL YEAR.

22 WE'RE PROPOSING AS THE MAXIMUM SPOT AWARD  
23 ALLOWED PER EMPLOYEE PER YEAR WOULD BE TWO AND THAT THE  
24 SPOT AWARDS WOULD NOT BE MORE THAN \$50 EACH. AND,  
25 AGAIN, THE CRITERIA FOR THE SPOT AWARDS WOULD BE



1 APPROVED BY THE PRESIDENT OR CHIEF FINANCE  
2 ADMINISTRATIVE OFFICER.

3 THE OTHER COMPONENT WOULD BE A PROFESSIONAL  
4 DEVELOPMENT FUNDING. AND AS YOU KNOW, THE FUNDING FOR  
5 PROFESSIONAL DEVELOPMENT WOULD BE FOR PROFESSIONAL  
6 CONFERENCES, CLASSES, AND/OR TRAININGS FOR EMPLOYEES IN  
7 THEIR CAREER OR IN THEIR PROFESSIONAL BACKGROUND FOR  
8 THEIR PROFESSIONAL DEVELOPMENT. THE BUDGET FOR THIS  
9 WOULD BE ALLOWED FOR ALL LEVELS OF STAFF 1 THROUGH 10  
10 AND WOULD BE BUDGETED AT 1 PERCENT OF STAFF SALARIES  
11 ANNUALLY.

12 THE GUIDELINES FOR APPROPRIATE PROFESSIONAL  
13 DEVELOPMENT WOULD BE APPROVED BY THE PRESIDENT AND THE  
14 CHIEF FINANCE ADMINISTRATIVE OFFICER.

15 THE NEXT COMPONENT IS A SALARY RANGE  
16 ADJUSTMENT OPTION. THE SALARY RANGES WOULD LIKE TO  
17 HAVE THE OPTION TO ADJUST ANNUALLY WITH THE START OF  
18 EACH FISCAL YEAR BASED ON THE CALIFORNIA PRICE INDEX,  
19 WHICH IS CONSISTENT WITH THE INCREASE IN THE PER DIEM  
20 POLICY. SO IF WE ADJUSTED OUR SALARY RANGES, WE WOULD  
21 BASE IT ON THE SAME CONSUMER PRICE INDEX AMOUNT THAT WE  
22 BASE OUR PER DIEM POLICY ON.

23 SALARY LEVELS WOULD ADDRESS LOCAL LABOR  
24 TRENDS AS WELL AS RECRUITMENT AND RETENTION ISSUES IN  
25 ANY GIVEN FISCAL YEAR, IF WE CHOSE TO DO THAT. AND

1 THIS, JUST TO CLARIFY WITH EVERYONE, WITH A SALARY  
2 RANGE ADJUSTMENT, THIS DOES NOT MEAN THERE WOULD BE AN  
3 AUTOMATIC INCREASE FOR STAFF. IT WOULD ONLY AFFECT  
4 STAFF WHO FELL BELOW THE NEW MINIMUM OF THE RANGE, AND  
5 WE WOULD NEED TO BUMP THEM UP TO THE MINIMUM OF THE  
6 RANGE. HOWEVER, IN ADDITION, THOUGH, THE SALARY RANGE  
7 ADJUSTMENT MIGHT ALSO COME WITH A COST OF LIVING  
8 ADJUSTMENT FOR STAFF.

9 FINALLY, WE CREATED PARAMETERS AROUND THE  
10 OVERALL TOTAL SALARY INCREASE FOR STAFF IN ANY FISCAL  
11 YEAR. AND WE'RE PROPOSING THAT IT COULD NOT EXCEED 15  
12 PERCENT OF BASE PAY UNLESS APPROVED BY THE PRESIDENT OR  
13 THE CHIEF FINANCE ADMINISTRATIVE OFFICER. IN ADDITION,  
14 THESE INCREASES WOULD INCLUDE ALL BASE-BUILDING  
15 MONETARY INCREASES SUCH AS MERIT, COST OF LIVING  
16 INCREASES, PROMOTIONAL INCREASES, OR EQUITY INCREASES.  
17 THE PERFORMANCE AWARDS AND THE SPOT AWARDS WOULD BE  
18 NONBASE-BUILDING, SO IT WOULD BE NOT PART OF THE  
19 OVERALL MAXIMUM 15 PERCENT. AN EMPLOYEE, AGAIN, WOULD  
20 NOT BE ALLOWED TO BE PAID OUTSIDE THE SALARY RANGE  
21 UNLESS APPROVED BY THE ICOC.

22 FINALLY, ALL INCREASES WOULD BE APPROVED IN  
23 WRITING BY THE PRESIDENT OR THE CHIEF FINANCE  
24 ADMINISTRATIVE OFFICER.

25 MS. KING: BEFORE WE GO ANY FURTHER, I JUST

1 WANTED TO ASK WHOEVER JUST JOINED, LET US KNOW WHO YOU  
2 ARE.

3 DR. FONTANA: JEANNIE FONTANA.

4 MS. CAMPE: SO THAT CONCLUDES MY PRESENTATION  
5 TO COMPLETE THE COMPENSATION PROGRAM FOR CIRM. ARE  
6 THERE ANY QUESTIONS?

7 DR. PIZZO: CAN WE GET THIS IN WRITING SO WE  
8 CAN LOOK AT IT?

9 MS. KING: YOU ACTUALLY DO.

10 DR. PIZZO: HOW EMBARRASSING. MARY GAVE ME  
11 ALL THE STUFF, BUT PROBABLY NOT.

12 MS. KING: ACTUALLY IT'S LABELED AGENDA ITEM  
13 NO. 4, AND THERE'S A BACKGROUND PAGE THAT ENDS ABOUT  
14 THREE-QUARTERS OF THE PAGE DOWN. AND THEN FOLLOWING  
15 THAT ON TWO PAGES IS A LIST OF BULLET POINTS THAT ALEX  
16 WAS JUST WALKING US THROUGH.

17 MR. KLEIN: SHERRY, CAN I ASK A QUESTION  
18 HERE?

19 CHAIRPERSON LANSING: YES, OF COURSE.

20 MR. KLEIN: IF COST OF LIVING AND MERIT ARE  
21 CAPPED AT 5 PERCENT AND PERFORMANCE IS 1 PERCENT, HOW  
22 IS IT THAT SOMEBODY CAN HAVE 15 PERCENT?

23 MS. HOFFMAN: BOB, THIS IS LORI HOFFMAN. SO  
24 THERE'S A SEPARATE PIECE WHICH SPEAKS TO AN ISSUE THAT  
25 WOULD ARISE IN TERMS OF A PROMOTION OR AN EQUITY OR

1 PARITY ADJUSTMENT BASED ON OUR SALARY SURVEY. SO, IN  
2 FACT, IT HAS TO BE A BASE-BUILDING INCREASE, AS  
3 ALEXANDRA POINTED OUT EARLIER. IN ONE YEAR, FOR  
4 EXAMPLE, IF SOMEBODY GOT THE MAXIMUM 5 PERCENT OF A  
5 BASE-BUILDING MERIT PAY INCREASE, THEY COULD STILL IN  
6 THAT SAME YEAR, GIVEN OTHER DATA THAT WOULD SUPPORT IT,  
7 THEY COULD RECEIVE UP TO A 10-PERCENT PROMOTION AND  
8 EQUITY INCREASE IN THAT SAME YEAR, THAT SAME FISCAL  
9 YEAR. SO THAT'S HOW YOU GET TO 15.

10 DR. MURPHY: IS THAT PERFORMANCE AWARD? IS  
11 THAT A ONE-SHOT DEAL? OR IS THAT ADDED TO BASE SALARY?

12 MS. HOFFMAN: THAT'S A ONE-TIME,  
13 NONBASE-BUILDING.

14 DR. MURPHY: SHERRY, I'VE GOT TO RUN FOR A  
15 MINUTE. I'M GOING TO PUT EVERYONE ON HOLD, BUT I'LL BE  
16 BACK. BEFORE I LEAVE, THE SPOT INCREASE OF UP TO \$50,  
17 THAT SOUNDS TO ME TO BE SUCH CHICKEN FEED THAT IT WOULD  
18 BE ALMOST OFFENSIVE.

19 MS. HOFFMAN: WELL, YOU KNOW, I UNDERSTAND  
20 THAT. THE PROBLEM IS IT'S AN IRS RULE BECAUSE THIS  
21 WOULD BE A NONTAXABLE EVENT.

22 DR. MURPHY: I SEE. I GUESS MY OWN FEELING  
23 IS THAT TO GIVE SOMEONE 50 BUCKS BECAUSE THEY DID A  
24 GOOD JOB ON A PROJECT, I WOULD HOPE THAT EVERYONE WOULD  
25 DO A GREAT JOB ON EVERY PROJECT. THAT DOESN'T TURN ME

1 ON.

2 DR. PIZZO: WHAT HAPPENS AT OTHER STATE  
3 AGENCIES? I KNOW WHEN I WAS AT THE NIH, THEY HAD SPOT  
4 AWARDS ON THE FEDERAL SIDE THAT WERE PRETTY SMALL IN  
5 PAYOUT. DO YOU KNOW WHAT HAPPENS IN THE STATE  
6 AGENCIES?

7 MS. HOFFMAN: I CERTAINLY COULD SPEAK TO UC,  
8 WHICH IS THE SAME. SO AS LONG AS IT'S UNDER A HUNDRED  
9 DOLLARS, IT CAN BE GIVEN AS A NONTAXABLE EVENT. AND,  
10 AGAIN, THIS IS ONLY ONE PIECE OF THE PERFORMANCE AWARD  
11 BASE. SO EACH EMPLOYEE WOULD HAVE THE ABILITY TO ALSO  
12 RECEIVE A LARGER CHUNK OF MONEY, BUT THAT WOULD BE A  
13 TAXABLE EVENT.

14 MR. KLEIN: WE'RE WORKING OFF A BASE HERE.  
15 OUR SALARIES ARE 60 PERCENT OF THE SURVEY GROUP; IS  
16 THAT CORRECT?

17 MS. HOFFMAN: THAT'S HOW -- THE SALARY RANGES  
18 WERE ACTUALLY 50 PERCENT, AND THAT'S HOW THEY WERE  
19 ORIGINALLY SET, YES, BOB.

20 MR. KLEIN: I THINK I HAVE A FUNDAMENTAL  
21 PROBLEM HERE IN THAT THE INITIATIVE SPECIFIES THE  
22 SALARIES WERE TO BE SET BASED UPON THE AVERAGE OF THE  
23 RANGE. AND THEY'RE NOT. THEY'RE 50 PERCENT OF THE  
24 RANGE. CERTAINLY THE FLOOR OF THE SALARY CAN BE SET AT  
25 THAT LEVEL, BUT YOU HAVE TO HAVE A LARGER RANGE WITHIN

1 A CATEGORY BECAUSE, YOU KNOW, IF THIS WERE 200 PEOPLE  
2 IN THIS AGENCY, WE WOULDN'T BE DEMANDING CONSTANT  
3 HEROICS, BUT WE HAVE 50 PEOPLE THAT ARE GOING TO  
4 CONSTANTLY BE UNDER HIGH PERFORMANCE STRESS. AND,  
5 WELL, PEOPLE AT THE TOP OF THIS STRUCTURE MAY HAVE  
6 ADEQUATE SALARY. I'M CONCERNED THAT PEOPLE WITHIN THIS  
7 STRUCTURE WHICH ARE COMPRESSED DOWN IN THIS SALARY  
8 STRUCTURE ARE REALLY NOT GOING TO BE FAIRLY COMPENSATED  
9 PARTICULARLY BECAUSE OF THE INADEQUACIES OF ADJUSTING  
10 TO SAN FRANCISCO HOUSING COSTS AND COST OF LIVING  
11 ISSUES.

12 I JUST FEEL THAT OUR SALARY STRUCTURE IS  
13 FUNDAMENTALLY INADEQUATE.

14 MS. HOFFMAN: BOB, THANK YOU FOR BRINGING  
15 THAT UP. UNFORTUNATELY TODAY WE'RE NOT DISCUSSING THE  
16 SALARY STRUCTURE, BUT WE WILL BRING IT BACK TO THE  
17 GOVERNANCE SUBCOMMITTEE AS WELL AS THE ICOC AFTER WE  
18 COMPLETE THE SALARY SURVEY. SO I THINK THAT WOULD BE  
19 THE FORUM IN WHICH TO DISCUSS THAT. AND WE WOULD HAVE  
20 A LOT OF DATA AT THAT POINT IN WHICH TO GO OVER SOME OF  
21 YOUR VERY VALID POINTS.

22 DR. HENDERSON: I WANTED TO JUST ASK. ARE  
23 THESE IN KEEPING WITH THE STATE REGULATIONS SO THAT  
24 WHEN WE'RE AUDITED, WE ARE SORT OF KEEPING WITHIN  
25 SOMEBODY'S -- SOME FORMAT AT THE STATE LEVEL?

1 MS. HOFFMAN: THANK YOU FOR BRINGING THAT UP.  
2 YES, WE INDEED ARE. OF COURSE, THAT'S WHY THE SPOT  
3 AWARDS ARE SO SMALL. AND I CERTAINLY RESONATE. I  
4 WOULD NOT WANT PEOPLE TO THINK IT WAS OFFENSIVE, BUT IT  
5 IS A SMALL AWARD HOPEFULLY TO BE MADE IN EVENT OF A  
6 ONE-DAY OCCURRENCE, AGAIN NONTAXABLE, BUT ALL OF THESE  
7 FOLLOW STANDARD PROCEDURES AND PROTOCOL AND WOULD  
8 CERTAINLY PASS ANY AUDIT TEST.

9 CHAIRPERSON LANSING: THEY'RE THE SAME AS THE  
10 UC SYSTEM?

11 MS. HOFFMAN: SIMILAR ACTUALLY. NOT THE  
12 SAME. WE USE UC AS ONE OF THE COMPARABLES. WE ALSO  
13 USED STATE OF CALIFORNIA. ALEX DID A FAIRLY EXTENSIVE  
14 SURVEY JUST TO GIVE US A BASIS OF WHICH TO DRAW FROM  
15 AND THEN PUT THIS TOGETHER.

16 DR. HENDERSON: HOW DO WE EXPLAIN TO ANYBODY  
17 ELSE HOW WE ARRIVE AT THIS SO THAT IT'S SIMPLE? WHAT  
18 YOU'VE DESCRIBED, YOU KNOW, DOESN'T HELP ME. HOW DO WE  
19 EXPLAIN IT IN A SIMPLE WAY? IT'S EITHER THE STATE  
20 SYSTEM OR IT'S THE UC SYSTEM. WHY DOES IT HAVE TO BE  
21 NOVEL?

22 MS. HOFFMAN: ONE OF THE ISSUES THAT WE  
23 CONSISTENTLY GRAPPLE WITH HERE, ESPECIALLY IN  
24 CONSIDERATION OF A BASE-BUILDING INCREASE, IS TO ALWAYS  
25 BE MINDFUL OF OUR OVERALL LIFETIME CAP OF 6 PERCENT OF

1 ADMINISTRATION. AND SO WHAT WE DID WAS WE USED A  
2 3.5-PERCENT INCREASE ON 50 FTE, WHICH IS OUR MAXIMUM  
3 NUMBER OF EMPLOYEES THAT WE CAN HAVE HERE AT CIRM, AND  
4 THEN ASSUMED A 3.5-PERCENT INCREASE OVER THE NEXT 13  
5 YEARS. AND DOING THAT, AS WELL AS ALSO ACCOUNTING FOR  
6 A 1 PERCENT FOR PROFESSIONAL DEVELOPMENT AND A 1  
7 PERCENT FOR PERFORMANCE AWARDS, WE COULD STAY WITHIN  
8 OUR OVERALL BUDGET, WHICH WAS CERTAINLY ONE OF THE  
9 MOTIVATIONS HERE.

10 DR. HENDERSON: THESE ARE LOWER THAN THE  
11 STATE AND THE UC SYSTEM IS WHAT YOU'RE SAYING?

12 MS. HOFFMAN: NO. THEY'RE ACTUALLY HIGHER  
13 THAN THE STATE, AND UC, BECAUSE IT IS ON A GENERAL FUND  
14 ALLOCATION. IN FACT, WHEN THE STATE OF CALIFORNIA  
15 EMPLOYEES DID NOT RECEIVE ANY COST OF LIVING OR MERIT  
16 INCREASES, WHICH THEY DID FOR THREE YEARS IN THE EARLY  
17 2000S, UC ALSO DID NOT RECEIVE ANY INCREASES -- UC  
18 EMPLOYEES DID NOT RECEIVE ANY INCREASES FOR A TWO-YEAR  
19 PERIOD. AND WHAT THIS ALLOWS US TO DO IS TO NOT MIMIC  
20 THE STATE BECAUSE WE'RE NOT A GENERAL FUND ALLOCATION,  
21 WE'RE A CONTINUOUS APPROPRIATION, BUT IT ALSO DOES  
22 PROVIDE UP TO THE 5 PERCENT, WHICH IS THE UC LIMIT.

23 NOW, UC HAS A LIMIT ON ITS OVERALL PROMOTION,  
24 MERIT, AND EQUITY INCREASES, WHICH IS 25 PERCENT. FOR  
25 THAT, THAT BECAME VERY HIGH FOR US. AND AS WE RAN OUT



1 THE POSSIBILITY OF THOSE NUMBERS, IT DIDN'T FIT IN OUR  
2 OVERALL LONG-TERM FINANCIAL PLAN.

3 CHAIRPERSON LANSING: YOU'RE SAYING THAT  
4 WE'RE HIGHER THAN THE STATE AND DIFFERENT THAN UC  
5 BECAUSE WE WON'T BE SUBJECT TO THE VAGARIES THAT UC IS  
6 SUBJECT TO?

7 MS. HOFFMAN: THAT'S CORRECT.

8 CHAIRPERSON LANSING: IF WE'RE HIGHER THAN  
9 THE STATE, I DON'T KNOW THAT WE SHOULD MESS WITH IT  
10 MUCH, TO BE HONEST WITH YOU.

11 DR. HENDERSON: WHAT DO YOU MEAN MESS WITH  
12 IT?

13 CHAIRPERSON LANSING: IN OTHER WORDS, I DON'T  
14 KNOW THAT -- I UNDERSTAND WE'RE SORT OF FALLING IN  
15 BETWEEN THE TWO IS WHAT YOU'RE SAYING, RIGHT, LORI?

16 MS. HOFFMAN: YES, WE ARE. CERTAINLY BY  
17 ALLOWING THIS 0 TO 5 PERCENT, THE PRESIDENT WOULD BE  
18 ABLE TO IN ANY ONE YEAR, IF WE HAD ADDITIONAL FUNDING  
19 FOR WHATEVER REASON THAT WE HADN'T COUNTED ON, HE OR  
20 SHE COULD MAKE THAT APPROPRIATION. OR IF, IN FACT, WE  
21 WERE HAVING SOME OTHER ISSUES OR WE HAD JUST DONE A  
22 COLA, IN FACT, WE HAVE THE LATITUDE IN WHICH TO ON AN  
23 ANNUAL BASIS MAKE THE APPROPRIATE DECISION.

24 CHAIRPERSON LANSING: THAT'S WHAT I WAS  
25 SAYING, BRIAN, IS THAT AS LONG AS WE'RE NOT HIGHER THAN

1 UC, WHICH HAS ALWAYS BEEN LIKE THE OUTER LIMIT OF WHAT  
2 WE DID, AND THE STATE IS ALSO SOMETHING THAT WE WERE  
3 MINDFUL OF, I GUESS I FEEL COMFORTABLE WITH IT IS, I  
4 GUESS, WHAT I WAS SAYING.

5 MR. ROTH: LORI, IT'S DUANE ROTH. CAN I ASK  
6 A QUESTION BECAUSE UNDER MERIT PAY YOU START OUT WITH A  
7 FUNDING POOL. AND AT FIRST I THOUGHT THAT'S 5 PERCENT  
8 OF THE TOTAL SALARIES THAT YOU THEN COULD ALLOCATE.  
9 BUT IF YOU LOOK AT THE NEXT LINE, NO ONE EMPLOYEE CAN  
10 GET MORE THAN 5 PERCENT.

11 MS. HOFFMAN: THAT'S CORRECT.

12 MR. ROTH: IS THAT THE INTENTION, OR COULD IT  
13 BE OPENED UP SO THAT YOU COULD TAKE THE POOL AND  
14 DISTRIBUTE IT 0 TO 7 OR 8 PERCENT IF SOMEBODY REALLY  
15 DESERVED EXTRA MERIT PAY?

16 MS. HOFFMAN: WELL, IF SOMEBODY DESERVED  
17 EXTRA MERIT PAY, I WOULD ASSUME THAT THERE WOULD BE  
18 SOME INEQUITIES OR PARITY INCREASE OR PROMOTIONAL  
19 OPPORTUNITY. SO THAT'S WHERE WE COULD TAKE CARE OF  
20 THAT ISSUE. IN FACT, IT WAS THOUGHT THAT WE COULD, FOR  
21 EXAMPLE, THIS YEAR HAVE A 3.5-PERCENT MERIT POOL AND  
22 ONE EMPLOYEE, BECAUSE THEY WERE EXCEPTIONAL, COULD  
23 RECEIVE UP TO 5 PERCENT. OF COURSE, WHAT THAT WOULD  
24 MEAN IS ANOTHER EMPLOYEE WOULD RECEIVE LESS THAN 3.5  
25 PERCENT. SO WE DIDN'T WANT IT TO BE -- WE DIDN'T WANT

1       THERE TO BE THAT MUCH OF AN EXTREME, AND WE WERE TRYING  
2       TO MAKE IT FAIR FOR EVERYBODY, BUT YET BE ABLE TO GIVE  
3       THE SUPERVISORS THE OPTION OF REALLY GIVING SOMEBODY  
4       ADDITIONAL FUNDS WITHIN THE STATE PARAMETERS, BUT NOT  
5       TO EXCEED UC PARAMETERS, SOME FLEXIBILITY.

6               MR. ROTH: MY FEELING WOULD BE THAT YOU  
7       REALLY LIMIT YOUR FLEXIBILITY THERE. IF I WERE GOING  
8       TO RECOMMEND A CHANGE, THE POOL IS FINE, BUT LIMITING  
9       THE INDIVIDUALS I DON'T THINK IS SOMETHING I WOULD LIKE  
10      TO DO. IF I WERE RUNNING IT, I'D LIKE TO HAVE SOME  
11      RANGE THERE BECAUSE OFTEN YOU'RE GIVING SOMEBODY NO PAY  
12      INCREASE. AND SOMEBODY ELSE, EVEN THOUGH THEY DON'T --  
13      THEY'RE JUST A GREAT PERFORMER, YOU REALLY WANT TO MOVE  
14      THEM UP, BUT YOU CAN'T REALLY FIND THE COMPS TO DO IT.  
15      YOU'RE STILL WITHIN RANGE, BUT A 6, 7 PERCENT MIGHT BE  
16      WARRANTED.

17              MR. KLEIN: I THINK DUANE IS RIGHT, THAT YOU  
18      REALLY HAVE TO BE ABLE TO AWARD INDIVIDUAL PERFORMANCE.  
19      AND THIS AGENCY WAS STRUCTURED TO ALLOW THAT KIND OF  
20      DISCRETION. I REALIZE IT'S SIMPLER JUST TO SAY WE'RE  
21      DOING IT THE WAY THE STATE IS DOING IT OR UC IS DOING  
22      IT, BUT WE'RE NOT THE UC. WE'RE SOMETHING UNIQUELY  
23      DIFFERENT. AS LONG AS IT'S JUSTIFIED WELL, EXPLAINED  
24      WELL, AND THE PERFORMANCE IS THERE, I THINK WE HAVE TO  
25      HAVE FAITH IN OUR STAFF TO BE ABLE TO RECOMMEND AND/OR

1 MAKE DECISIONS THAT REALLY REWARD EXTRAORDINARY  
2 PERFORMANCE.

3 MS. HOFFMAN: LET ME JUST UNDERSTAND THEN  
4 WHAT'S BEING PROPOSED. ON THE SECOND BULLET UNDER  
5 MERIT PAY PLAN, IT WOULD READ SOMETHING, FOR EXAMPLE,  
6 NO EMPLOYEE SHALL RECEIVE MORE THAN A 7 PERCENT.

7 MR. ROTH: 8 PERCENT OR SOMETHING LIKE THAT.

8 MS. HOFFMAN: EIGHT PERCENT.

9 MR. ROTH: WHICH GIVES YOU A LITTLE MORE  
10 FLEXIBILITY. THAT GIVES YOU THE CHANCE TO GIVE  
11 SOMEBODY NOTHING AND SOMEBODY 8 PERCENT.

12 DR. HENDERSON: I JUST CAUTION. IT'S A VERY  
13 SMALL ORGANIZATION, AND FAVORITISM IS GOING TO BE A BIG  
14 PROBLEM WITHIN A SMALL ORGANIZATION. SO YOU'RE GOING  
15 TO HAVE TO BE VERY CAREFUL WITH BIG DISCREPANCIES IN  
16 RAISES.

17 CHAIRPERSON LANSING: I AGREE WITH YOU,  
18 BRIAN.

19 DR. HENDERSON: I WOULD KEEP IT SIMPLE  
20 MYSELF.

21 CHAIRPERSON LANSING: I WOULD KEEP IT THE WAY  
22 IT IS, BUT WE CAN CERTAINLY VOTE ON IT AND SEE.

23 DR. POMEROY: I HAVE A SLIGHTLY DIFFERENT  
24 QUESTION ON THIS SECTION. I DON'T USUALLY THINK OF  
25 COST OF LIVING AS PART OF A MERIT PAY PLAN. AND SO I'M

1       SOMEWHAT CONFUSED OF WHY THEY'RE COMBINED IN THIS  
2       SECTION, AND IS THE IMPLICATION THAT THE TOTAL OF THE  
3       MERIT AND THE COLA CAN'T BE MORE THAN 5 PERCENT?

4               MS. HOFFMAN:  YES, DR. POMEROY.  THAT IS  
5       EXACTLY CORRECT.  SO IN ONE YEAR PERHAPS THE PRESIDENT  
6       COULD DECIDE TO DO A 1.5-PERCENT COLA FOR EVERYONE,  
7       GIVEN THAT WE ARE A SMALL ORGANIZATION AND WE WANT TO  
8       BE MINDFUL OF THE FACT THAT WE ALL HAVE TO WORK  
9       TOGETHER IN VERY SMALL QUARTERS, BUT THEN THAT ALSO BE  
10      OR COULD BE UP TO 3.5 PERCENT FOR A MERIT-BASED PAY  
11      THAT COULD BE BASED ON PERFORMANCE.

12              DR. POMEROY:  GOT IT.

13              MR. KLEIN:  BUT IF COST OF LIVING IN THE AREA  
14      WERE INCREASED BY 4 PERCENT OR 5 PERCENT, EFFECTIVELY  
15      THERE WOULD BE NO PERFORMANCE PAY INCREASES POSSIBLE.

16              MS. HOFFMAN:  IT WOULD BE UP TO THE PRESIDENT  
17      IN EACH GIVEN YEAR TO DECIDE IF THERE WOULD BE COLA'S,  
18      IF THERE WOULD BE COLA'S AND MERITS, OR IF THERE WOULD  
19      BE ONLY MERITS.

20              DR. PIZZO:  INTERESTINGLY, FIRST, THIS IS  
21      HANDLED, IT SOUNDS LIKE, DIFFERENTLY IN DIFFERENT  
22      INSTITUTIONS.  AND MY OWN, THERE HAVEN'T BEEN ANY  
23      COLA'S SINCE I'VE BEEN HERE.  EVERYTHING HAS BEEN  
24      DRIVEN AS BAREST INCREASE, AND THE RANGE IS USUALLY  
25      SOMEWHERE AROUND 4 TO 4.5 PERCENT.

1                   MR. KLEIN: I THINK MY FUNDAMENTAL ISSUE IS  
2                   THAT THE BASE SALARIES, I THINK, DO NOT FOLLOW THE  
3                   INITIATIVE AND ARE ESSENTIALLY A PERCENTAGE OF WHAT THE  
4                   INITIATIVE REQUIRES. SO I HAVE A FUNDAMENTAL PROBLEM  
5                   WITH FAIRNESS. I'M TRYING TO FIGURE OUT HOW TO DEAL  
6                   WITH IT, BUT I THINK YOUR POINT, LORI, ABOUT THE SALARY  
7                   SURVEY COMING BACK IS AN IMPORTANT ONE BECAUSE IF WE  
8                   DEAL WITH THE BASE PROPERLY, THEN THESE OTHER ISSUES GO  
9                   AWAY.

10                  CHAIRPERSON LANSING: I THINK YOU'RE RIGHT,  
11                  BOB. I THINK WHAT I UNDERSTOOD LORI TO SAY WAS THAT WE  
12                  WERE GOING TO BRING THIS BACK, THE SALARY ISSUE, SO  
13                  THAT WE WOULD HAVE A CHANCE TO ADDRESS IT.

14                  MS. HOFFMAN: THAT'S RIGHT. AND CHAIR  
15                  LANSING, WHAT WE WILL DO ON A REGULAR BASIS, IN FACT,  
16                  EVERY OTHER YEAR, IS SPEND THE TIME AND ENERGY TO WORK  
17                  WITH OUTSIDE FIRMS TO UPDATE THOSE SALARY SURVEYS SO  
18                  THAT WE HAVE CAPTURED ANY FALLBACK, IN FACT, ON A COST  
19                  OF LIVING INCREASE.

20                  DR. PIZZO: WHEN DO YOU THINK THE SALARY  
21                  SURVEY DATA FOR THIS YEAR WILL BE AVAILABLE?

22                  MS. HOFFMAN: WE HAD HOPED -- AND CERTAINLY  
23                  AT THE LAST ICOC MEETING I WAS DIRECTED TO INCLUDE THE  
24                  PRESIDENT'S SALARY IN THAT SALARY SURVEY. I THINK WHAT  
25                  IS HAPPENING AT THIS POINT IS WE HAD ORIGINALLY

1 SCHEDULED A TEN-WEEK PERIOD TO DO THE SALARY SURVEY.  
2 WE NOW BELIEVE WE HAVE COME TO CONTRACTUAL AGREEMENTS  
3 WITH THE FIRM, AND THEY WILL BEGIN NOW. IT IS LIKELY  
4 THAT WE COULD GET, I'M HOPING, AT LEAST A DOZEN OF THE  
5 SALARIES COMPLETED FOR PRESENTATION TO THE JUNE ICOC  
6 MEETING. THOSE 12 WOULD INCLUDE NOT ONLY THE 11 STAFF  
7 POSITIONS THAT WERE IDENTIFIED IN THE BSA AUDIT AS  
8 BEING -- HAVING SOME ISSUES AROUND THE ORIGINAL  
9 SALARIES THAT WAS SLATED LAST YEAR AND ALSO THE  
10 PRESIDENT'S SALARY. SO THAT IS CURRENTLY THE PLAN.

11 I WOULD LIKE TO SAY THAT WE COULD BRING ALL  
12 23 POSITIONS FORWARD IN JUNE, BUT I'M RELUCTANT TO  
13 THINK THAT WE COULD GET THROUGH EVERYTHING BY THEN.

14 CHAIRPERSON LANSING: ALL RIGHT. IS THERE  
15 ANY MORE COMMENTS? THEN I'D LIKE TO ASK IF THERE'S ANY  
16 COMMENTS FROM THE PUBLIC? WE'LL START IN LOS ANGELES.  
17 WE HAVE SOMEBODY HERE. JOHN SIMPSON.

18 MR. SIMPSON: JOHN SIMPSON FROM THE  
19 FOUNDATION FOR TAXPAYER AND CONSUMER RIGHTS. I STILL  
20 AM A LITTLE CONFUSED. WHAT WAS BEING PROPOSED IN THE  
21 MERIT WAS TO RAISE IT TO A TOTAL OF 8 PERCENT, AND THAT  
22 WOULD INCLUDE A MERIT INCREASE AND A COLA. WAS THAT  
23 CORRECT?

24 MR. ROTH: I'M THE ONE THAT BROUGHT IT UP.  
25 MY RECOMMENDATION WAS THAT YOU CAN HAVE THE POOL BE 0

1 TO 5 PERCENT, BUT ALLOW THE FLEXIBILITY FOR THE  
2 PRESIDENT OR WHOEVER IS SETTING THESE TO HAVE A RANGE  
3 THAT COULD GO AS HIGH AS EIGHT. WHETHER IT'S COLA  
4 AND/OR MERIT, IT DOESN'T REALLY MATTER. IT'S COMBINED.  
5 BUT DON'T CAP IT AT FIVE BECAUSE THE FLEXIBILITY THERE  
6 IS, I THINK, TOO NARROW TO ACTUALLY TRY TO MOVE A VERY  
7 HIGH PERFORMING EMPLOYEE UP AND TO ALSO NOT MAKE IT  
8 LOOK LIKE, WELL, EVERYBODY GETS THE SAME WHETHER YOU  
9 WORK HARD AND STAY LATE OR NOT. THAT'S WHAT BOTHERED  
10 ME ABOUT IT IF I WERE HAVING TO HAND THIS OUT.

11 BUT THE RECOMMENDATION WAS THAT THE POOL BE  
12 CAPPED AT FIVE, AS IT IS NOW, BUT THERE BE MORE  
13 FLEXIBILITY IN THE INDIVIDUAL GRANTS.

14 MR. SIMPSON: I GUESS MY OTHER QUESTION.  
15 WHAT IS THE COLA TIED TO? IS THAT THE DISCRETION OF  
16 THE CHIEF EXECUTIVE, OR IS THAT TIED TO SOME SPECIFIC  
17 COST OF LIVING INDEX?

18 MS. CAMPE: THE ACTUAL COLA WOULD BE TIED TO  
19 THE CALIFORNIA CONSUMER PRICE INDEX, WHICH IS EXACTLY  
20 WHAT WE TIE THE PER DIEM INCREASE FOR THE ICOC BOARD  
21 MEMBERS TO. SO WE WOULD BE CONSISTENT WITH THAT  
22 INCREASE. AND LAST YEAR WAS 1.039. SO IT WOULD JUST  
23 BE REFLECTING THE CHANGE OF CONSUMER PRICE INDEX FROM  
24 ONE YEAR TO THE NEXT.

25 MR. SIMPSON: BUT IS THIS SEEN AS AUTOMATIC,



1 OR IS THIS SEEN AS SOMETHING THAT WOULD BE --

2 MS. CAMPE: NO, IT WOULD NOT BE AUTOMATIC.  
3 IT WOULD BE AT THE DISCRETION OF THE PRESIDENT ON AN  
4 ANNUAL BASIS DEPENDING ON CURRENT RECRUITMENT AND  
5 RETENTION ISSUES AND LABOR MARKET ISSUES.

6 DR. PIZZO: SO THEN WHY HAVE THE COLA AT ALL?  
7 WHY NOT JUST MAKE IT ALL MERIT, AND THEN YOU'D HAVE  
8 MORE FLEXIBILITY IN TERMS OF HOW YOU ALLOCATED THE  
9 AMOUNTS?

10 MS. CAMPE: THAT'S AN EXCELLENT QUESTION.  
11 AND THE REALITY IS THAT WE MAY JUST USE IT FOR MERIT IN  
12 THE FUTURE, BUT WE WANTED TO ALLOW OURSELVES THE  
13 OPPORTUNITY TO OFFER A COST OF LIVING INCREASE. STATE  
14 EMPLOYEES DO GET COST OF LIVING INCREASES AND SO DO UC  
15 EMPLOYEES. WE JUST WANTED TO ALLOW THAT FLEXIBILITY  
16 AND THAT OPTION IN ANY GIVEN YEAR TO DO THAT IF WE SO  
17 CHOOSE OR IF THE PRESIDENT SO CHOOSES.

18 MR. SIMPSON: NOW THAT I SORT OF UNDERSTAND  
19 IT, THIS IS MY COMMENT. I STILL HAVE SOME CONCERN  
20 THAT, ONCE AGAIN, YOU'RE GOING IN A DIRECTION OF  
21 SOMETHING THAT'S MORE NOVEL THAN IT NEEDS TO BE, AND  
22 THAT YOU WOULD BE BETTER SERVED HAVING EXACTLY THE SAME  
23 PROGRAM AS THE STATE OR THE UC. AND I'M NOT SURE BUT  
24 THAT YOU'RE PERHAPS REINVENTING A WHEEL HERE THAT  
25 DOESN'T NEED TO BE REINVENTED. THANK YOU.

1                   CHAIRPERSON LANSING: THANK YOU, JOHN. DO I  
2 HAVE ANY PUBLIC COMMENT FROM SALK?

3                   DR. MURPHY: NO.

4                   CHAIRPERSON LANSING: CARLSBAD? CONNECT?

5                   MR. ROTH: NO.

6                   CHAIRPERSON LANSING: KECK?

7                   DR. HENDERSON: NO.

8                   CHAIRPERSON LANSING: STANFORD?

9                   DR. PIZZO: NO.

10                  CHAIRPERSON LANSING: CIRM IN SAN FRANCISCO?

11                  MS. KING: YES.

12                  MR. REED: THIS IS DON REED. AS A 17-YEAR  
13 TEACHER AND A UNION REPRESENTATIVE, MERIT PAY IS  
14 GENERALLY REGARDED AS EXTREMELY DIVISIVE, PARTICULARLY  
15 IN A PLACE LIKE THIS WHERE EVERYBODY IS GOING TO BE  
16 WORKING ABOVE AND BEYOND. JUDGING BY WHAT'S ALREADY  
17 HAPPENED, IT'S NATURAL, CONSIDERED NATURAL TO BE  
18 WORKING TWICE AS HARD AS NORMAL. SO TO HAVE MERIT PAY  
19 GIVEN OUT IN THE MIDST OF THAT WOULD BRING PROBLEMS OF  
20 FAVORITISM PERCEPTION. AND I JUST WOULD RATHER SEE  
21 THAT MONEY PUT INTO GIVING PEOPLE GENERALLY A BETTER  
22 STANDARD OF LIVING, PARTICULARLY IN SUCH A HIGHLY  
23 EXPENSIVE PLACE TO LIVE.

24                  CHAIRPERSON LANSING: THANK YOU. THE CITY  
25 ATTORNEY'S OFFICE IN SAN FRANCISCO? UC DAVIS?

1 DR. POMEROY: NONE.

2 CHAIRPERSON LANSING: SO, MELISSA, HELP ME  
3 WITH THIS. WE HAVE A PRESENTATIONS THAT LORI DID. WE  
4 CAN VOTE ON THAT, AND THEN WE CAN VOTE ON AN AMENDMENT  
5 TO IT.

6 MS. KING: CORRECT. AS OF RIGHT NOW, THERE  
7 ARE NO MOTIONS ON THE TABLE. SO IF ANYONE ON THE  
8 SUBCOMMITTEE WOULD LIKE TO MAKE ONE OR MORE OF THE  
9 MOTIONS THAT YOU MENTIONED, THEN THERE WOULD BE  
10 SOMETHING TO VOTE ON.

11 DR. HENDERSON: I MOVE WE ACCEPT THE  
12 COMPENSATION PROGRAM IN FRONT OF US.

13 CHAIRPERSON LANSING: IN OTHER WORDS, WE'RE  
14 GOING -- I SECOND THAT. WE'RE GOING TO VOTE ON WHAT  
15 LORI PRESENTED US?

16 DR. HENDERSON: RIGHT.

17 CHAIRPERSON LANSING: OKAY. ANY FURTHER  
18 DISCUSSION ON THAT?

19 DR. PIZZO: AT THE RISK OF CAUSING A  
20 CHALLENGE, I JUST WANT TO ASK LORI IF SHE COULD COMMENT  
21 OR RESPOND TO JOHN SIMPSON'S QUESTION. THAT IS, IF I  
22 HEARD HIM CORRECTLY, HE WAS SAYING THAT THIS WAS,  
23 QUOTE, MORE COMPLICATED OR REINVENTING THE WHEEL.  
24 COULD YOU JUST CLARIFY HOW YOU WENT ABOUT CREATING  
25 THIS? AND, IN FACT, IS IT POSSIBLE TO RESPOND AS TO

1       WHETHER IT IS MORE COMPLICATED THAN THE, QUOTE, STATE  
2       OR UC SYSTEM? I'M FAMILIAR WITH WHAT EXISTS AT  
3       STANFORD, BUT UNFORTUNATELY NOT REALLY FAMILIAR WITH  
4       WHAT EXISTS AT THE UC'S.

5               MS. HOFFMAN: CERTAINLY. I'D BE HAPPY TO DO  
6       THAT. IT IS NOT MORE COMPLICATED THAN AT UC. I CAN  
7       GUARANTEE YOU THAT. IT DOES ALLOW FOR FLEXIBILITY THAT  
8       IS NOT APPARENT AT THE STATE LEVEL. AND AS BOB KLEIN  
9       MENTIONED EARLIER, ALTHOUGH WE DO TRY TO FOLLOW AND USE  
10      THE STATE AS WELL AS UC AS OUR GUIDELINES AND  
11      COMPARABLES, WE ARE A LITTLE DIFFERENT. AND SO I DON'T  
12      WANT TO SAY WE'RE COMPLETELY UNIQUE, BUT WE ARE  
13      DIFFERENT. AND BECAUSE WE CONTINUE TO TRY TO BUILD AN  
14      INSTITUTION WITHIN SOME VERY DEFINED PARAMETERS, ONE  
15      BEING THE OVERALL 6 PERCENT FOR ADMINISTRATION, WE  
16      CONTINUE TO TRY TO BE MINDFUL OF THAT WHILE STILL  
17      HONORING THE HUGE CONTRIBUTION MADE BY ALL STAFF.

18              SO WE FELT THAT THIS PROGRAM GAVE US THE MOST  
19      FLEXIBILITY THAT WE COULD HAVE AT THIS TIME WHILE STILL  
20      FOLLOWING SOME VERY CLOSE PARAMETERS ALLOWING FOR COST  
21      OF LIVING INCREASES IN AN EXPENSIVE AREA AND STILL  
22      WANTING TO GIVE SOME RECOGNITION TO STAFF THAT DO WORK  
23      ABOVE AND BEYOND THE CALL OF DUTY. SO THAT'S WHAT I  
24      WOULD ANSWER TO JOHN SIMPSON.

25              DR. PIZZO: THANK YOU.

1 MR. SIMPSON: THANK YOU.

2 CHAIRPERSON LANSING: ANY MORE FURTHER

3 DISCUSSION? MELISSA, WOULD YOU DO A ROLL CALL VOTE FOR

4 THIS ITEM?

5 MS. KING: BRIAN HENDERSON.

6 DR. HENDERSON: YES.

7 MS. KING: BOB KLEIN.

8 MR. KLEIN: YES.

9 MS. KING: SHERRY LANSING.

10 CHAIRPERSON LANSING: YES.

11 MS. KING: RICHARD MURPHY.

12 DR. MURPHY: YES.

13 MS. KING: TINA NOVA. PHIL PIZZO.

14 DR. PIZZO: YES.

15 MS. KING: CLAIRE POMEROY.

16 DR. POMEROY: YES.

17 MS. KING: JEANIE FONTANA.

18 DR. FONTANA: YES.

19 MS. KING: DUANE ROTH.

20 MR. ROTH: YES.

21 MS. KING: OSWALD STEWARD.

22 DR. STEWARD: YES.

23 MS. KING: THAT MOTION CARRIES.

24 CHAIRPERSON LANSING: ALL RIGHT. THANK YOU.

25 I WILL NOW MOVE ON TO AGENDA ITEM 5, WHICH IS THE

1 CONSIDERATION OF POLICY AND REGULATIONS FOR TRAVEL FOR  
2 THE ICOC MEMBERS. AND THIS IS AN ITEM THAT COMES  
3 RECOMMENDED TO US BY OUR CHAIRMAN, BOB KLEIN. SO I'D  
4 LIKE TO ASK YOU, BOB, TO PRESENT THIS ITEM, AND  
5 POSSIBLY YOU'LL WANT SOME INPUT FROM LORI HOFFMAN AS  
6 WELL ON THE DETAILS.

7 MR. KLEIN: THANK YOU. LORI, IF YOU WOULD DO  
8 THE TECHNICAL KIND OF SUMMARY, AND THEN I WILL JUST  
9 PROVIDE THE REASONS FOR MY ENDORSEMENT.

10 MS. HOFFMAN: THANK YOU. THE GOVERNANCE  
11 SUBCOMMITTEE AND THE ICOC SAW THIS POLICY AND VOTED TO  
12 APPROVE IT AT THEIR DECEMBER 4TH AND THEN DECEMBER 7TH  
13 MEETING RESPECTIVELY FOR USE BY CIRM STAFF AND WORKING  
14 GROUP MEMBERS ONLY. AT THE TIME WE CERTAINLY AS STAFF  
15 DID NOT WANT TO PRESUME TO SUGGEST TO THE ICOC THAT  
16 THEY ADOPT THIS POLICY FOR THEMSELVES.

17 WHAT HAS SUBSEQUENTLY HAPPENED IS THE BSA  
18 AUDITORS HAVE ENDORSED THIS NEW TRAVEL POLICY FOR CIRM  
19 STAFF AND WORKING GROUP MEMBERS. AND IT ANSWERED MANY  
20 OF THE QUESTIONS THAT THEY HAD OVER THE COURSE OF  
21 SEVERAL MONTHS IN TERMS OF WHAT POLICIES WE WERE  
22 FOLLOWING AND CERTAINLY WHY.

23 THIS POLICY IS BASED ON UC POLICY AND GIVES  
24 US A REAL FOUNDATION IN WHICH TO MOVE FORWARD. AND AT  
25 THE SUGGESTION OF THE CHAIR AND THE VICE CHAIR OF THE

1 BOARD, WE ARE NOW BRINGING THIS FORWARD -- THEY ARE NOW  
2 BRINGING THIS FORWARD TO YOU FOR ADOPTION.

3 THE BEST PART OF THIS AT THIS TIME IS THAT WE  
4 ARE APPROACHING THE 60-DAY RESPONSE TO THE BSA  
5 AUDITORS, WHICH IS DUE ON APRIL 27TH. AND BY ADOPTING  
6 THIS POLICY WHOLESAL FOR THE ICOC BOARD, IT WOULD  
7 ANSWER ONE OF THEIR RECOMMENDATIONS.

8 SO I TURN THIS OVER TO YOU, BOB KLEIN.

9 MR. KLEIN: THANK YOU VERY MUCH, LORI. AND  
10 THE APPROACH ON THIS ITEM AT THIS TIME IS TO PUT A  
11 POLICY IN PLACE THAT'S WELL UNDERSTOOD, THAT IS  
12 CONSISTENT WITH OUR ANALOGOUS TRAVEL POLICIES OF THE UC  
13 SYSTEM, AND HAS BEEN WORKING FOR THE WORKING GROUPS AND  
14 THE STAFF. ESSENTIALLY WE'VE BEEN VERY CLOSE TO THIS  
15 POLICY PREVIOUSLY, BUT HAVE HAD SOME VARIATION. NOW  
16 WE'RE MAKING THESE POLICIES CONSISTENT. AS WE WORK  
17 WITH THIS POLICY IN THE FUTURE, IF WE FIND SOMETHING IS  
18 COUNTERPRODUCTIVE OR IS DYSFUNCTIONAL, WE CAN ADDRESS  
19 IT INDIVIDUALLY, BUT THIS GIVES US A SIMPLE PLATFORM TO  
20 GO FORWARD WITH.

21 CHAIRPERSON LANSING: I WANT TO SECOND. THIS  
22 IS MS. LANSING. I WANT TO SECOND WHAT YOU'RE SAYING.  
23 I'VE LOOKED OVER THIS POLICY. IT'S THERE FOR EVERYBODY  
24 TO LOOK AT. AND IT'S SOMETHING THAT HAS BEEN FOLLOWED  
25 BY THE OUTSIDE PEOPLE AND BY THE STAFF. AND I REALLY

1 THINK THAT AS, QUOTE, THE OVERSIGHT BOARD MEMBERS, WE  
2 SHOULD BE CONSISTENT AND FOLLOW THE SAME POLICY.

3 SO LET ME ASK IF THERE'S ANY QUESTIONS FROM  
4 THE SUBCOMMITTEE MEMBERS. SALK?

5 DR. MURPHY: NO.

6 CHAIRPERSON LANSING: CARLSBAD? CONNECT?

7 MR. ROTH: NO.

8 CHAIRPERSON LANSING: KECK?

9 DR. HENDERSON: NO.

10 CHAIRPERSON LANSING: STANFORD?

11 DR. PIZZO: NO.

12 CHAIRPERSON LANSING: CIRM IN SAN FRANCISCO?

13 MS. KING: NONE HERE.

14 CHAIRPERSON LANSING: CITY ATTORNEY'S OFFICE?  
15 UC DAVIS?

16 DR. POMEROY: NONE.

17 CHAIRPERSON LANSING: AND LET ME ASK YOU FROM  
18 THE PUBLIC, LOS ANGELES. JOHN SIMPSON.

19 MR. SIMPSON: ONE QUICK QUESTION AND COMMENT.  
20 IT DOES SEEM TO ME THAT IDEALLY YOU SHOULD FOLLOW THE  
21 SAME TRAVEL POLICY AS THE STAFF, BUT I NOTE ON PAGE 2  
22 THERE'S A PROVISION FOR EXCEPTIONS. UNDER THIS POLICY,  
23 THE PRESIDENT OR HIS DESIGNEE WOULD BE RULING ON THE  
24 EXCEPTIONS. THAT TO ME SEEMS IMMINENTLY SENSIBLE, BUT  
25 I JUST WONDERED WHETHER THAT WAS THE INTENTION.



1 MS. HOFFMAN: THAT WAS INDEED THE INTENTION,  
2 YES.

3 MR. SIMPSON: THANK YOU.

4 MR. KLEIN: I'D LIKE TO POINT OUT AS WELL  
5 THAT IN THE AUDIT BETWEEN THE STAFF AND EXCEPTIONS AT  
6 THE BOARD LEVEL, I THINK THAT THE EXCEPTIONS ON TRAVEL  
7 AMOUNTED TO LESS THAN ONE-TENTH OF 1 PERCENT OF THE  
8 BUDGET. SO THE EXCEPTION ISSUES FROM THE AUDIT WERE  
9 VERY SMALL. WE HOPE THAT, IN TERMS OF EXCEPTION,  
10 MEANING DEVIATIONS, NOT EXCEPTIONS BECAUSE THERE ARE  
11 PROPER EXCEPTIONS WITH WAIVERS FROM THE PRESIDENT, BUT  
12 IT IS IMPORTANT -- WHILE IT'S IMPORTANT TO CORRECT AND  
13 MAKE SURE WE'RE COMPLETELY CONSISTENT, THE RECORD WAS,  
14 IN FACT, VERY CONSISTENT.

15 AND WHEN AN INDIVIDUAL BOARD MEMBER, WHO, MY  
16 UNDERSTANDING IS, WAS TRYING TO MAKE A SUBCOMMITTEE  
17 MEETING SO THEY HAD A QUORUM AND THE REST OF THE  
18 PEOPLE'S TIME WOULDN'T BE WASTED, HAD TO GET A FIRST  
19 CLASS TICKET FOR A PLANE FLIGHT IN CALIFORNIA TO MAKE  
20 THAT MEETING. IT WAS AN UNFORTUNATE EXCEPTION, BUT AN  
21 EXCEPTION THAT OCCURRED IN ORDER TO MAKE SURE THE TIME  
22 OF THE STAFF AND THE REST OF THE PEOPLE WOULD NOT BE  
23 WASTED.

24 SO WE'RE ALL WORKING AT THIS TOGETHER.  
25 EVERYONE IS COMMITTED, BUT I THINK THIS DOES GIVE US A

1 CONSISTENT PLATFORM.

2 CHAIRPERSON LANSING: BUT ALSO, WHEN THERE IS  
3 AN EXCEPTION LIKE THAT, AND NO ONE IS QUESTIONING THAT,  
4 IT GIVES YOU A REASON TO SAY OTHERWISE WE WOULDN'T HAVE  
5 A QUORUM, WE COULDN'T DO THE BUSINESS. THAT SEEMS TO  
6 ME WOULD HAVE BEEN AN ACCEPTABLE EXCEPTION.

7 MR. KLEIN: I THINK IT SHOULD HAVE AS WELL,  
8 BUT UNFORTUNATELY IT WAS CALLED OUT AS AN EXCEPTION  
9 WITHOUT THE EXPLANATION.

10 CHAIRPERSON LANSING: THEREFORE, I THINK  
11 WE'RE ALL SAYING THE SAME THING. WE NOW HAVE A POLICY  
12 SO THAT THERE WILL BE NOTHING TO CALL OUT BECAUSE WE'LL  
13 HAVE BACKUP INFORMATION ON EVERYTHING. THAT'S ALWAYS  
14 THE IDEAL SITUATION.

15 SO LET ME CONTINUE WITH THE PUBLIC, WHICH I  
16 THINK I LEFT OFF ON -- WHERE DID I LEAVE OFF ON THE  
17 PUBLIC? I DON'T KNOW, SO I'M GOING TO SAY IT AGAIN.  
18 KECK? NO PUBLIC. STANFORD?

19 DR. PIZZO: NONE.

20 CHAIRPERSON LANSING: CIRM IN SAN FRANCISCO?

21 MS. KING: NONE HERE.

22 CHAIRPERSON LANSING: CITY ATTORNEY'S OFFICE?

23 MR. SERRANO-SEWELL: NONE.

24 CHAIRPERSON LANSING: UC DAVIS?

25 DR. POMEROY: NONE.

1                   CHAIRPERSON LANSING: THAT BEING SAID, IS  
2   THERE A MOTION TO APPROVE THIS?  
3                   MR. ROTH: I'LL MOVE IT BE APPROVED.  
4                   CHAIRPERSON LANSING: SECOND?  
5                   DR. HENDERSON: SECOND.  
6                   CHAIRPERSON LANSING: ANY FURTHER COMMENTS?  
7   MELISSA, WOULD YOU LEAD US IN A ROLL CALL?  
8                   MS. KING: I WILL. FOR THE RECORD, I'D LIKE  
9   TO NOTE THAT I BELIEVE ICOC MEMBER DAVID SERRANO-SEWELL  
10   HAS JOINED.  
11                  MR. SERRANO-SEWELL: YES.  
12                  MS. KING: BRIAN HENDERSON.  
13                  DR. HENDERSON: YES.  
14                  MS. KING: BOB KLEIN.  
15                  MR. KLEIN: YES.  
16                  MS. KING: SHERRY LANSING.  
17                  CHAIRPERSON LANSING: YES.  
18                  MS. KING: RICHARD MURPHY.  
19                  DR. MURPHY: YES.  
20                  MS. KING: PHIL PIZZO.  
21                  DR. PIZZO: YES.  
22                  MS. KING: CLAIRE POMEROY.  
23                  DR. POMEROY: YES.  
24                  MS. KING: JEANIE FONTANA.  
25                  DR. FONTANA: YES.

1 MS. KING: DUANE ROTH.  
2 MR. ROTH: YES.  
3 MS. KING: DAVID SERRANO-SEWELL.  
4 MR. SERRANO-SEWELL: YES.  
5 MS. KING: OSWALD STEWARD.  
6 ALL RIGHT. THAT MOTION CARRIES.  
7 CHAIRPERSON LANSING: AND OUR FINAL ITEM IS  
8 AGENDA ITEM 6, WHICH IS A BRIEFING ON KEY FINANCIAL  
9 CHALLENGES AND OPPORTUNITIES. AND THIS ITEM INVOLVES A  
10 BRIEFING BY OUR CHAIRMAN, BOB KLEIN. SO, BOB, OVER TO  
11 YOU.  
12 MR. KLEIN: THANK YOU VERY MUCH. HAS CHARLES  
13 CARDALL JOINED?  
14 MR. CARDALL: I AM ON.  
15 MR. KLEIN: THANK YOU. FOR THE BENEFIT OF  
16 THE BOARD, THERE'S TWO TOPICS WE'RE GOING TO COVER JUST  
17 CONCEPTUALLY HERE. ONE TOPIC IS A CONCEPTUAL  
18 DISCUSSION OF THE CHALLENGES DEALING WITH IMPLEMENTING  
19 THE BOND PROGRAM AND THE TAX EXEMPTION RELATED TO THE  
20 BOND PROGRAM. ANOTHER MAJOR PROGRAM IS THE LOAN  
21 PROGRAM AUTHORIZED BY THE INITIATIVE AND THE  
22 CONSTITUTIONAL AMENDMENT.  
23 CHARLES CARDALL IS GOING TO WORK WITH ME, AS  
24 HE HAS OVER THE LAST THREE OR FOUR YEARS, IN COVERING  
25 THE BOND PROGRAM. CHARLES IS THE SENIOR TAX COUNSEL AT

1 ORRICK HERRINGTON, THE STATE'S BOND COUNSEL.

2 AND DURING THE CAMPAIGN, FOR BACKGROUND FOR  
3 EVERYONE, AFTER MEETING WITH THE STATE TREASURER'S  
4 OFFICE ON THE INITIATIVE AND THE BOND SECTIONS, I ASKED  
5 FOR A WAIVER TO ALLOW US TO MEET WITH COUNSEL TO THE  
6 STATE, TAX COUNSEL SPECIFICALLY, SO WE COULD PROPERLY  
7 VET THE ISSUE OF TAX EXEMPTION AND TAXABLE BONDS.

8 IN THAT PROCESS, SINCE CHARLES CARDALL HAD  
9 THE EXPERTISE OF ALSO HISTORICALLY REPRESENTING THE  
10 UNIVERSITY OF CALIFORNIA SYSTEM IN THIS, WHICH IS AN  
11 IMPORTANT PART OF THE INSTITUTIONAL STRUCTURE FOR  
12 RESEARCH IN THE STATE, I BELIEVE THAT HE WAS THE RIGHT  
13 CHOICE TO HEAD UP THAT TEAM. BOB FEYER ALSO WAS A PART  
14 OF THAT TEAM. CHARLES HAS A REMARKABLE CAREER, WHICH  
15 GIVEN TIME, I WON'T GO THROUGH, BUT I WILL SAY THAT HE  
16 CONVENEED WORKING GROUPS SEVERAL TIMES DURING THE YEAR I  
17 SPENT WITH OUTSIDE ADVISORS WRITING THE INITIATIVE TO  
18 MAKE CERTAIN THAT THIS PORTION OF THE INITIATIVE WOULD  
19 BE CONSISTENT WITH THE STATE'S EXPECTATIONS, WITH THE  
20 STATE TREASURER'S EXPECTATIONS, AND WOULD POSITION US  
21 IN THE BEST WAY POSSIBLE FOR TAX EXEMPTION ON THE  
22 LARGEST PART OF OUR PORTFOLIO THAT WE COULD REASONABLY  
23 ACHIEVE.

24 SO, CHARLES, MAYBE YOU COULD TALK ABOUT WHAT  
25 OUR BASIC GOAL IS HERE IN TERMS OF ACHIEVING TAX

1 EXEMPTION ON OUR BOND PROGRAM, AND THEN GO THROUGH THE  
2 DIFFERENT CATEGORIES THAT WE'RE GOING TO FALL INTO  
3 BECAUSE OF THE INNOVATIVE STRUCTURE. WE HAVE A NUMBER  
4 OF GRANT AND LOAN PROGRAMS. WE'RE VERY DIFFERENT FROM  
5 THE NORMAL G.O. BOND STRUCTURE THAT WOULD BE THROUGH  
6 THE TRANSPORTATION DEPARTMENT, FOR EXAMPLE.

7 CHARLES, COULD YOU LEAD US THROUGH THAT  
8 PORTION OF THE DISCUSSION?

9 MR. CARDALL: NO PROBLEM AT ALL. LET ME JUST  
10 SAY THIS. I DON'T KNOW HOW GREAT THE CONNECTION HERE  
11 IS, BUT IF PEOPLE WANT TO JUMP IN AND INTERRUPT ME AND  
12 ASK QUESTIONS OR SLOW ME DOWN OR HAVE ME COVER  
13 SOMETHING AGAIN, PLEASE DO WHATEVER YOU NEED TO TO GET  
14 MY ATTENTION. BUT FOR NOW WHAT I'LL DO IS SORT OF RUN  
15 THROUGH SOME OF THE SAME STUFF THAT BOB JUST DESCRIBED.  
16 AND AT LEAST IN MY MIND IT'S A FAIRLY LOGICAL  
17 PROGRESSION AND FAIRLY STRAIGHTFORWARD, BUT WE'LL SEE  
18 HOW THAT TRANSLATES THROUGH THE PHONE.

19 THE GOAL IS REALLY PRETTY SIMPLE. THE GOAL  
20 IS TO TRY TO ACHIEVE THE LOWEST COST OVERALL FINANCING  
21 FOR THE STATE OF CALIFORNIA FOR THE WHOLE STEM CELL  
22 RESEARCH PROGRAM FOR THE WHOLE PROP 71 PROGRAM. AND  
23 THE WAY THAT WE -- THE SORT OF PRIMARY OBJECTIVE WITH  
24 RESPECT TO THAT GOAL IS TO TRY TO HAVE THE HIGHEST  
25 PROPORTION POSSIBLE OF TAX-EXEMPT BONDS THAT WE CAN AS

1 OPPOSED TO TAXABLE BONDS SIMPLY BECAUSE TAX-EXEMPT  
2 BONDS WILL ALWAYS CARRY A LOWER INTEREST RATE FOR  
3 COMPARABLE TAXABLE BONDS. THAT'S CERTAINLY OUR OVERALL  
4 GOAL.

5           THERE ARE SOME CHALLENGES IN THAT CONNECTION.  
6 AND I'M GOING TO KIND OF GO THROUGH SOME OF THOSE, AND  
7 HOPEFULLY THAT WILL MAKE A FAIR AMOUNT OF SENSE AS WE  
8 DISCUSS IT HERE. I'LL TELL YOU THAT MY OWN PERSONAL  
9 GOAL WITH RESPECT TO THIS IS TO TRY TO ACHIEVE A VERY,  
10 VERY HIGH PERCENTAGE OF TAX-EXEMPT BOND FINANCING  
11 VERSUS TAXABLE. THE TAXABLE FINANCING WORLD IS  
12 ACTUALLY VERY FAVORABLE RIGHT NOW, AND SO THE  
13 DISTINCTION BETWEEN TAXABLE AND TAX-EXEMPT IS NOT HUGE  
14 IN TERMS OF KIND OF DIFFERENT PERCENTAGE INTEREST RATE.  
15 PEOPLE HAVE ESTIMATED THAT AT DIFFERENT LEVELS, BUT  
16 MANY OF THOSE ESTIMATES HAVE BEEN VERY SMALL AS FAR AS  
17 DIFFERENCES GO. IT'S JUST WITH \$3 BILLION OF BONDS, WE  
18 WANT TO TRY TO MAKE SURE WE'RE DOING EVERYTHING WE CAN  
19 TO BE AS EFFICIENT AS POSSIBLE.

20           AND I'M HOPEFUL THAT WE CAN BE UP, MAYBE NOT  
21 A HUNDRED PERCENT TAX-EXEMPT, BUT UP SORT OF IN THAT  
22 AREA. ONE OF THE THINGS WE'RE GOING TO HAVE TO DO,  
23 JUST AS SORT OF AN OVERALL MATTER HERE AS WE'RE TALKING  
24 ABOUT THE PROGRAM AND KIND OF GETTING US GOING, WE ARE  
25 GOING TO HAVE TO GO IN AND GET A PRIVATE LETTER RULING

1 FROM THE IRS ON A COUPLE OF DIFFERENT ISSUES. WE  
2 HAVEN'T SPECIFICALLY DECIDED EXACTLY WHAT WE'RE GOING  
3 TO ASK OF THE IRS AND SO FORTH. THAT'S GOING TO TAKE A  
4 VERY COLLABORATIVE EFFORT FROM MY PERSPECTIVE  
5 INTERNALLY AT ORRICK HERRINGTON, STATE TREASURER'S  
6 OFFICE PEOPLE, CIRM FOLKS, AND SO FORTH. WE'RE GOING  
7 TO HAVE TO HAVE A VERY ACTIVE AND COLLABORATIVE PROCESS  
8 THERE, BUT THE GOAL WITH ALL OF THAT IS TO SORT OF SET  
9 THINGS UP TO POTENTIALLY HAVE EVERYTHING OR MAYBE  
10 ALMOST EVERYTHING, ALMOST ALL OF THE BONDS, BE ABLE TO  
11 BE ISSUED ON A TAX-EXEMPT BASIS.

12 MR. KLEIN: CHAZ, AT THIS POINT I'D LIKE TO  
13 DISTINGUISH. YOU'RE REFERRING, WHEN YOU SAY ALMOST ALL  
14 THE BONDS, TO THE GRANT PROGRAM AS VERSUS THE LOAN  
15 PROGRAM?

16 MR. CARDALL: THAT'S RIGHT. I THINK THAT THE  
17 LOAN PROGRAM PRESENTS -- AND YOU'LL SEE THIS AS WE GO  
18 THROUGH. THANKS, BOB, FOR THE CLARIFICATION. THE LOAN  
19 PROGRAM PRESENTS SOME MUCH MORE DIFFICULT CHALLENGES IN  
20 TERMS OF TAX EXEMPTION ON BONDS. SO IT'S LIKELY THAT  
21 THE LOAN PROGRAM ITSELF WILL HAVE TO BE FUNDED WITH  
22 TAXABLE DEBT OR AT LEAST LARGELY WITH TAXABLE DEBT. OF  
23 COURSE, THE GOOD NEWS THERE, AT LEAST IN TERMS OF  
24 EFFICIENCY, IS THAT HOPEFULLY YOU'RE GETTING SOME  
25 PAYMENTS BACK ON THE LOANS. SO IT MAY BE THAT NET NET



1 THAT ENDS UP BEING A VERY EFFICIENT PROGRAM TOO EVEN  
2 THOUGH YOU CAN'T ACHIEVE THE LOWER COST FINANCING.

3 MR. KLEIN: JUST SO PEOPLE HAVE A CONTEXT  
4 THERE, IF YOU'RE PAYING A THIRD OF A PERCENT ANNUALLY  
5 MORE IN INTEREST, 30 OR 35 BASIS POINTS, THAT'S REALLY  
6 DE MINIMUS AS COMPARED TO THE BENEFIT OF GETTING  
7 PRINCIPAL BACK WITH 10 PERCENT INTEREST, FOR EXAMPLE.

8 MR. CARDALL: RIGHT. RIGHT. THAT'S  
9 ABSOLUTELY RIGHT. SO WITH THAT SORT OF BEGINNING, ONE  
10 OF THE THINGS THAT I KIND OF LIKE TO DO IS JUST REALLY  
11 QUICKLY COVER THE BASIC BACKGROUND POINT. AND THIS MAY  
12 BE OLD NEWS TO SOME OF THE FOLKS IN THE ROOM, AND I'M  
13 SORRY FOR THAT, BUT I THINK IT SETS UP THE REST OF THE  
14 DISCUSSION IN A WAY THAT ALLOWS THAT TO HAPPEN MORE  
15 EASILY.

16 SO THE BASIC TAX ISSUE HERE, THE REASON WHY  
17 WE MIGHT NOT BE ABLE TO HAVE TAX-EXEMPT BONDS FINANCING  
18 GRANTS, AND LET'S JUST FOR THE MOMENT FOCUS ON GRANTS,  
19 THE REASON WHY WE MIGHT NOT IS BECAUSE THE TAX LAW, THE  
20 INTERNAL REVENUE CODE, TELLS US THAT TAX-EXEMPT DEBT IS  
21 JUST FINE TO BE ISSUED BY ENTITIES LIKE THE STATE OF  
22 CALIFORNIA. IT'S JUST THERE ARE SOME PRETTY  
23 SIGNIFICANT LIMITATIONS ON THE SORT OF CONNECTIONS TO  
24 THE USE OF THE BOND PROCEEDS OR ANY FACILITIES THAT ARE  
25 FINANCED BY THE BONDS, THINGS LIKE THAT, VERY

1       SIGNIFICANT LIMITATIONS ON THE CONNECTION OF THE USE OF  
2       THE PROCEEDS WITH PRIVATE BUSINESSES.  SO HERE PRIVATE  
3       IS REALLY ANYTHING THAT'S NOT A GOVERNMENTAL ENTITY.  
4       IT WOULD BE A NONPROFIT INSTITUTION LIKE A STANFORD OR  
5       SOME OTHER GREAT RESEARCH INSTITUTION LIKE THAT, OR IT  
6       COULD BE A FOR-PROFIT ENTITY AS WELL.  ANYTHING THAT'S  
7       NOT GOVERNMENTAL.  IT'S GOING TO BE A POTENTIAL WHAT WE  
8       CALL A PRIVATE USER.

9                   AND THE BASIC LIMITATION THAT WE DEAL WITH ON  
10       THAT IS THAT FOR A BOND ISSUED, FOR ANY SINGLE BOND  
11       ISSUE, YOU'RE NOT SUPPOSED TO HAVE MORE THAN THE LESSER  
12       OF 10 PERCENT OF THE PROCEEDS, I'LL CALL IT, PRIVATELY  
13       USED AND PAID FOR.  OR IF IT'S A PARTICULARLY LARGE  
14       BOND ISSUE, NO MORE THAN \$15 MILLION OF THAT KIND OF  
15       PRIVATE USE AND PRIVATE PAYMENTS.

16                   IF WE CAN PAUSE ON THAT FOR A SECOND, WHEN  
17       THE STATE OF CALIFORNIA ISSUES GENERAL OBLIGATION  
18       BONDS, WHICH THEY DO FOUR, FIVE, SIX TIMES A YEAR,  
19       THOSE BOND ISSUANCES USUALLY ARE IN THE BILLION-DOLLAR  
20       RANGE.  SO THE 10-PERCENT LIMITATION ISN'T REALLY MUCH  
21       OF A LIMITATION.  WHAT IT IS WE LOOK AT MAINLY IS THIS  
22       \$15 MILLION LIMITATION BECAUSE THE STATE'S ALMOST  
23       ALWAYS ISSUING BONDS IN AN AMOUNT MORE THAN 150  
24       MILLION.

25                   THE OTHER KEY DISTINCTION TO REALIZE AS WE'RE

1 FOCUSING ON THAT \$15-MILLION POINT IS EVEN THOUGH PROP  
2 71 APPROVED \$3 BILLION WORTH OF BONDS, THOSE BONDS WILL  
3 ACTUALLY BE ISSUED OVER TIME, PERIODICALLY, AND BE A  
4 PART OF MAYBE EACH ONE OR THREE OR FOUR A YEAR,  
5 WHATEVER IT IS, THE STATE'S G.O. BOND ISSUES. SO THERE  
6 MIGHT BE A ONE HUNDRED MILLION ISSUANCE UNDER PROP 71  
7 FOR YOUR GUY'S PURPOSES THAT'S PART OF A BILLION-DOLLAR  
8 ISSUANCE THAT WOULD ALSO FINANCE SCHOOLS AND HIGHWAYS  
9 AND WHATEVER, PARKS, WHATEVER IT IS THAT THE G.O. BOND  
10 PROGRAMS DO.

11 AND SO ONE OF THE TRICKS FOR US IS TO TRY TO  
12 SORT OF MAXIMIZE HOW WE CAN USE, FROM SORT OF THE  
13 STRATEGIC PERSPECTIVE, HOW WE CAN USE THIS \$15-MILLION  
14 LIMITATION.

15 MR. KLEIN: AT THIS POINT WOULD YOU EXPLAIN  
16 TO THEM IT'S NOT THAT THE NONPROFIT INSTITUTIONS IN  
17 CALIFORNIA PER SE CREATE THIS TAXABILITY ISSUE. YOU  
18 WANT TO DRAW IN THE CONNECTION TO THE ROYALTIES?

19 MR. CARDALL: RIGHT. SO THE KEY ELEMENT  
20 HERE -- LET ME TRY TO DO IT THIS WAY. THIS PARTICULAR  
21 POINT NOW IS MAYBE IN MOST WAYS THE MOST IMPORTANT  
22 POINT TO KEEP IN MIND AS WE GO THROUGH, AND YOU'LL SEE  
23 HOW IT WEAVES ITS WAY THROUGH THE REST OF THE  
24 DISCUSSION.

25 WHAT I SAID BEFORE ABOUT THIS \$15-MILLION

1     LIMIT, WE TEND TO THINK OF THAT AS BEING SORT OF A  
2     PRIVATE USE AND A PRIVATE PAYMENTS-TYPE LIMIT.  WHEN  
3     YOU'RE MAKING GRANTS, THE SIMPLE ANSWER IS THAT WITH A  
4     GRANT, THERE ARE NO PAYMENTS.  THAT IS, FROM THE  
5     STATE'S PERSPECTIVE, THE STATE ISSUES BONDS, AND MAYBE  
6     IN THIS CASE CIRM IS IN THE MIDDLE, BUT ULTIMATELY  
7     THERE'S A TRANSFER OF THE BOND PROCEEDS TO SOME OTHER  
8     ENTITY TOTALLY UNRELATED TO THE STATE.  AND EVEN IF  
9     THAT ENTITY ITSELF IS NOT A GOVERNMENT AGENCY, SO FAR  
10    WE DON'T HAVE ANY SORT OF A TAX PROBLEM BECAUSE YOU  
11    HAVE TO HAVE BOTH, TOO MUCH WHAT WE CALL PRIVATE USE,  
12    TOO MUCH INVOLVEMENT OR OWNERSHIP OF THE DOLLARS OR  
13    SOMETHING BY A PRIVATE ENTITY, AND ALSO TOO MUCH BY WAY  
14    OF PAYMENTS COMING BACK TO THE ISSUER OF THE BONDS,  
15    COMING BACK TO THE STATE.

16                 SO THAT THE KEY ELEMENT HERE IS GRANTS TO A  
17    NONPROFIT ARE GOING TO BE SO FAR SO GOOD.  THAT'S NOT A  
18    TAX PROBLEM.  WHAT WE CARE ABOUT IS WHAT DOLLARS MAKE  
19    THEIR WAY BACK TO THE STATE.  THAT'S WHY THE IP POLICY  
20    AND THE POSSIBILITY OF SHARING ROYALTIES AND THAT  
21    COMING BACK TO THE STATE OF CALIFORNIA ENDS UP REALLY  
22    BEING KIND OF THE CRITICAL TAX ISSUE.  WE NEED TO LOOK  
23    AT WHAT THOSE DOLLARS ARE THAT ARE COMING BACK IN OR AT  
24    LEAST AT THE FRONT END THAT WE EXPECT TO HAVE COMING  
25    BACK IN, AND THEN WE MEASURE THOSE AMOUNTS.

1                   AND THE KEY ELEMENT IN MEASURING THOSE  
2   AMOUNTS, AND THIS REALLY IS THE POINT THAT IS REAL  
3   IMPORTANT FOR EVERYBODY TO GET, WE MEASURE THOSE  
4   AMOUNTS BASED ON WHAT WE CALL A PRESENT VALUE METHOD.  
5   THAT IS, UNLIKE THE KIND OF BOND BALLOT MEASURE WHERE  
6   PEOPLE APPROVE \$3 BILLION OF BONDS AND THERE'S A  
7   STATEMENT FOR WHAT THE GROSS AMOUNT OF INTEREST IS  
8   THAT'S GOING TO BE POTENTIALLY PAID OVER TIME BY THE  
9   STATE OF CALIFORNIA FOR ALL THOSE BONDS, AND THAT ENDS  
10  UP BEING A VERY, VERY LARGE NUMBER.  AND WHEREAS YOU  
11  MIGHT IN THAT CONTEXT SAY, OH, AND THE POTENTIAL  
12  ROYALTY REVENUES THAT CAN BE SHARED BACK TO THE STATE  
13  OVER THE NEXT 30 OR 40 YEARS IS MAYBE EQUALLY A LARGE  
14  NUMBER.  WE DON'T THINK ABOUT IT IN GROSS DOLLARS OR IN  
15  SORT OF FUTURE VALUE DOLLARS.  WE THINK OF IT IN  
16  PRESENT VALUE SENSE.

17                   SO IF A STREAM OF ROYALTY PAYMENTS, EVEN A  
18  SIGNIFICANT STREAM OF ROYALTY PAYMENTS, IS COMING IN,  
19  BUT DOESN'T START FOR 20 YEARS, THE PRESENT VALUE TODAY  
20  OF THAT STREAM OF PAYMENTS 20 YEARS FROM NOW IS GOING  
21  TO BE DRAMATICALLY SMALLER FOR PRESENT VALUE  
22  MATHEMATICAL REASON, DRAMATICALLY SMALLER THAN THOSE  
23  GROSS DOLLARS.  AND THAT'S REALLY WHAT WE CARE ABOUT.  
24  SO WE'RE FOCUSING ON THIS \$15-MILLION LIMIT BY KIND OF  
25  BOND ISSUANCE AND TRYING TO GET A FEEL FOR WHETHER THAT

1 POTENTIAL ROYALTY STREAM THAT CAN BE MAKING ITS WAY  
2 BACK TO THE STATE IS GOING TO BE ON A PRESENT VALUE  
3 BASIS MORE THAN THAT \$15-MILLION AMOUNT KIND OF  
4 ALLOCATED BY BOND ISSUES, SPLIT UP SORT OF BOND ISSUE  
5 BY BOND ISSUE.

6 MR. KLEIN: CHAZ, LET ME GIVE THEM SOME  
7 NUMBERS. I THINK IT MAY HELP MAKE IT MORE TANGIBLE.  
8 THE BALLOT MEASURE WAS \$6 BILLION. THAT'S FUTURE  
9 DOLLARS BECAUSE THE 3 BILLION IN INTEREST IS FUTURE  
10 NOMINAL DOLLARS AT THE END OF 35 YEARS. AND IN OUR  
11 PROJECTIONS OF ROYALTIES, WE PUT DOWN -- WE HAD AN  
12 ECONOMIST WHO PRODUCED A STUDY THAT SAID 500 MILLION TO  
13 A BILLION. NOW, THE PEOPLE THAT HAVE BEEN CRITICIZING  
14 THIS STUDY COMPLETELY MISSED THE POINT, THAT IT HAD TO  
15 BE STATED IN FUTURE DOLLARS BECAUSE THAT'S THE WAY THE  
16 BALLOT IS STATED IN CALIFORNIA. THEY GROSS EVERYTHING  
17 UP IN FUTURE DOLLARS, AS CHAZ SAYS, EVEN THOUGH THE  
18 ROYALTY STREAM DOESN'T MEANINGFULLY START UNTIL 20  
19 YEARS OUT. SO THAT IN FUTURE DOLLARS, IT'S A VERY  
20 SUBSTANTIAL NUMBER. IN PRESENT VALUE, IT'S A MUCH  
21 LOWER NUMBER.

22 IN FACT, IF YOU TAKE \$500 MILLION AND YOU  
23 PRESENT VALUE IT, IT'S ABOUT 115 MILLION. IF YOU TAKE  
24 A BILLION DOLLARS AND PRESENT VALUE IT, IT'S ABOUT 230  
25 MILLION. THE SAFE HARBOR RULE OF 10 PERCENT OF 3

1 BILLION IS 300 MILLION. SO THAT MEANS THAT EVEN IF THE  
2 BILLION-DOLLAR LEVEL OF FUTURE ROYALTIES, WE ARE UNDER  
3 THE 10-PERCENT SAFE HARBOR LIMIT AS LONG AS WE MANAGE  
4 INTENSELY OUR BOND ISSUANCE SO WE DON'T VIOLATE THESE  
5 OTHER LOWER CASE RULES ON HOW MUCH WE ALLOCATE TO EACH  
6 BOND ISSUE.

7 MR. CARDALL: RIGHT. AND CERTAINLY ONE OF  
8 THE STRATEGY POINTS AND ONE OF THE GOOD RESULTS, I  
9 THINK, OF OUR CONFERENCE CALL WE HAD LAST WEEK WITH THE  
10 STATE TREASURER'S OFFICE FOLKS WAS THE PEOPLE AT STATE  
11 TREASURER'S OFFICE ARE ALSO FOCUSED ON EXACTLY THAT  
12 POINT. THEY REALIZE THE POWER OF THE MATH IN TERMS OF  
13 THE PRESENT VALUE THING AND MAXIMIZING THESE 10-PERCENT  
14 OR \$15 MILLION AMOUNTS. AND THAT'S CERTAINLY GOING TO  
15 BE PART OF OUR STRATEGY GOING FORWARD, HOW WE ISSUE  
16 BONDS AND HOW WE SET THINGS UP THAT WAY. THAT'S  
17 EXACTLY RIGHT.

18 JUST SO WE DON'T LOSE SIGHT OF ONE OTHER  
19 POINT, BOB FOCUSED US ON AND HAD ME DRAW A DISTINCTION  
20 BETWEEN GRANTS AND LOANS. THE REASON FOR THAT IS THE  
21 REASON WHY LOANS ARE SORT OF MORE DISADVANTAGED IN THIS  
22 CONTEXT FROM A TAX-EXEMPT BOND TAX PERSPECTIVE IS THAT  
23 SEPARATE FROM THE KIND OF PRIVATE USE AND PRIVATE  
24 PAYMENTS THINGS, WHERE WE THINK THE PRESENT VALUE PART  
25 OF THAT IS VERY POWERFUL FOR US IN TERMS OF GETTING TO

1 A TAX-EXEMPT BOND CONCLUSION, ON THE LOAN SIDE, THE  
2 LIMITATIONS ARE MORE SEVERE. YOU'RE NOT ALLOWED TO  
3 HAVE MORE THAN \$5 MILLION OF ANY BOND ISSUANCE OR, IF  
4 IT'S SMALLER, 5 PERCENT OF ANY BOND ISSUANCE USED FOR  
5 LOANS. THAT'S NOT MEASURED ON A PRESENT VALUE BASIS.  
6 THAT'S JUST WHAT'S THE DOLLAR AMOUNT THAT YOU'RE USING  
7 TO MAKE LOANS TO NONGOVERNMENTAL ENTITIES.

8 SO THERE ARE SOME DE MINIMUS AMOUNTS THERE.  
9 WE MAY BE ABLE TO FIT IN SOME LOAN AMOUNTS OUT OF  
10 TAX-EXEMPT BOND PROCEEDS INTO ANY INDIVIDUAL BOND  
11 ISSUANCE, BUT THOSE DOLLARS AREN'T GOING TO ADD UP TO  
12 BE NEARLY THE SAME AS IT WILL ON THE GRANT SIDE.

13 SO THAT'S SORT OF THE BASIC OVERVIEW. THE  
14 KEY PARTS ARE THIS \$15-MILLION LIMIT THE WAY THE  
15 PRESENT VALUE ASPECT OF IT WORKS, THE DISTINCTION  
16 BETWEEN LOANS AND GRANTS. AND JUST SORT OF THE BASIC  
17 POINT, THAT THE WORST CASE IS WE END UP WITH A LARGER  
18 AMOUNT OF TAXABLE BONDS, THAT'S NOT MY GOAL, FOR SURE,  
19 BUT THE DOWNSIDE OF THAT IS NOT A HUGE DOWNSIDE FROM A  
20 FINANCIAL PERSPECTIVE. THERE'S THINGS WE CAN DO IN  
21 THAT CONTEXT TO TRY TO MINIMIZE THE OVERALL COST TO THE  
22 STATE. THAT'S KIND OF PLAN B IF WE NEED TO GO THERE.

23 MR. KLEIN: ARE THERE SPECIFIC QUESTIONS FOR  
24 CHAZ AT THIS POINT?

25 DR. HENDERSON: IT'S A LITTLE HARD TO FOLLOW



1 ALL OF THIS. I'M NOT SURE. CAN YOU TELL ME WHERE THIS  
2 IS LEADING US TODAY?

3 MR. KLEIN: WELL, WE'RE GOING TO IN A MINUTE  
4 GO THROUGH AND TALK ABOUT THE LOAN PROGRAM, WHICH WE  
5 HAVE NOT INSTITUTED AT THE AGENCY, AND THE BENEFITS OF  
6 THE LOAN PROGRAM; BUT IT'S IMPORTANT TO UNDERSTAND THAT  
7 THAT LOAN PROGRAM, BASED ON WHATEVER PORTION OF THE  
8 PROCEEDS OF THE AGENCY ARE PUT IN A LOAN PROGRAM, WOULD  
9 BE TAXABLE. AGAIN, AS WE DISCUSSED EARLIER, THE  
10 DIFFERENTIAL IN RATE IS ABOUT 30 TO 35 BASIS POINTS, A  
11 THIRD OF A PERCENT.

12 IT IS ALSO IMPORTANT BECAUSE IN THE VERY NEAR  
13 FUTURE WE'RE GOING TO HAVE TO BE COMING TO THE AGENCY  
14 BOND AUTHORIZATION RESOLUTIONS. AND THEY'RE GOING TO  
15 BE BROKEN DOWN INTO SPECIFIC CATEGORIES TO TRY AND  
16 OPTIMIZE THE TAX EXEMPTION. AND THERE'S A NECESSITY TO  
17 UNDERSTAND WHY WE'RE GOING TO BREAK IT INTO THESE  
18 COMPONENTS TO MAXIMIZE THE TAX EXEMPTION AND TO HAVE  
19 SOME BACKGROUND ON THE STRATEGIC THINKING THAT'S GOING  
20 BEHIND THE STRUCTURING OF THE BOND PROGRAM.

21 DR. HENDERSON: IS THERE SOMETHING IN WRITING  
22 WITH GRANTS OR SOMETHING THAT WE COULD HAVE THAT, AT  
23 LEAST FOR SOMEBODY LIKE ME MIGHT KEEP UP WITH THIS A  
24 LITTLE BIT? I DON'T FEEL I'M GOING TO GIVE A VERY  
25 INFORMED AND KNOWLEDGEABLE RESPONSE TO ANY QUESTION

1 ASKED OF ME TODAY.

2 MR. KLEIN: HERE'S WHAT WE'RE DOING. WE'RE  
3 PRESENTING THIS CONCEPTUALLY. CHARLES IS GOING TO  
4 PREPARE -- IS IN THE PROCESS OF PREPARING A SUMMARY  
5 MEMO WHICH NEEDS TO BE PROCESSED THROUGH THE STATE  
6 TREASURER'S OFFICE. AND WHEN IT'S APPROVED BY THE  
7 STATE TREASURER'S OFFICE, THEN WE WILL COME TO THE  
8 BOARD AND AUGMENT IT BY A NARRATIVE WITH GRAPHS, BUT WE  
9 HAVE TO PROCESS IT THROUGH THE STATE TREASURER'S  
10 OFFICE.

11 DR. MURPHY: BOB, I GUESS I SHARE BRIAN'S  
12 CONCERN HERE. ONE, REALLY GRASPING THIS WHOLE THING;  
13 AND, NO. 2 QUESTION, IS THIS REALLY AN ISSUE FOR THE  
14 GOVERNANCE COMMITTEE AT THIS POINT?

15 CHAIRPERSON LANSING: I WAS GOING TO SAY  
16 THIS. I DIDN'T KNOW -- WITH DEEP RESPECT TO OUR CHAIR,  
17 WHO ASKED FOR THIS ITEM TO BE PUT ON, I'M AFRAID THAT  
18 MOST OF US, MYSELF INCLUDED, DON'T HAVE THE ABILITY TO  
19 REALLY UNDERSTAND IT OR FOLLOW IT OR MAKE INFORMED  
20 DECISIONS. AND I GUESS WE RELY ON YOU AND THE STATE TO  
21 TELL US WHAT IS THE RIGHT WAY TO DO THE BONDS.

22 MR. KLEIN: NORMALLY WE WOULD HAVE A FINANCE  
23 COMMITTEE. WE DON'T HAVE A FINANCE COMMITTEE IN PLACE  
24 AT THIS TIME. SO THE ONLY WAY TO BRING INFORMATION IN  
25 A PREPARATORY MANNER THROUGH ANY COMMITTEE TO THE BOARD

1 RIGHT AT THIS MOMENT IS THE GOVERNANCE COMMITTEE.

2 CHAIRPERSON LANSING: CAN I MAKE A  
3 SUGGESTION? AND, AGAIN, BOB, YOU KNOW, I THINK MOST OF  
4 US ARE REALLY -- AND YOU'VE DONE A WONDERFUL JOB, BOTH  
5 OF YOU, OF TRYING TO EXPLAIN IT, BUT MOST OF US HAVE A  
6 GREAT DEAL OF TROUBLE FOLLOWING IT. I SAY THAT  
7 RESPECTFULLY. MAYBE THERE'S SOMEBODY ON THE PHONE WHO  
8 REALLY UNDERSTOOD IT BETTER THAN I DID.

9 MAYBE THE JOB OF THE GOVERNANCE COMMITTEE  
10 TODAY, I'D LIKE TO PUT THIS FORTH, IS THAT WE NEED TO  
11 FORM A FINANCE COMMITTEE WITH PEOPLE WHO HAVE THIS  
12 KNOWLEDGE. MAYBE WE NEED OUTSIDE AND INSIDE PEOPLE OR  
13 STATE PEOPLE TO COME TO THE FULL BOARD WITH A  
14 RECOMMENDATION. MAYBE THAT'S THE JOB OF THE GOVERNANCE  
15 COMMITTEE. I DON'T MIND LISTENING TO IT AT ALL. DO  
16 YOU KNOW? WE HAD SCHEDULED THIS MEETING TILL 4:30, SO  
17 I HAVE NO PROBLEM. I DON'T KNOW THAT WE REALLY  
18 UNDERSTAND IT.

19 DR. PIZZO: SHERRY, THIS IS PHIL. CAN I ASK  
20 ONE QUESTION? I'M SITTING HERE NEXT TO BOB, AND HE  
21 CLEARLY UNDERSTANDS IT, AND I'M SORT OF STILL  
22 STRUGGLING CONCEPTUALLY, AS I THINK OTHER PEOPLE ARE.  
23 CAN I ASK A QUESTION, WHICH IS PARTLY CONCEPTUAL AND  
24 MAYBE SOMEWHAT POLITICAL AS WELL?

25 SO I'M TRYING TO THINK OF THIS FROM THE POINT

1 OF VIEW OF THE CIRM AND FROM THE POINT OF VIEW OF THE  
2 STATE. SO IF I'M CIRM, I'M TRYING TO OPTIMIZE THE  
3 FINANCIAL PORTFOLIO FOR CIRM; AND, THEREFORE, I WANT TO  
4 HAVE THE LEAST TAX BURDEN THAT I CAN POSSIBLY HAVE. SO  
5 I'D BE LOOKING TO OPTIMIZE, IF YOU WILL, THE REVENUE  
6 SIDE FOR CIRM. IF I'M THE STATE, I'M CONCERNED ABOUT  
7 THE PAYBACK FOR THE BONDS, AND I WANT TO KNOW THAT I'M  
8 GETTING AS MUCH AS I CAN TO MAKE SURE THAT THE LOAN, IF  
9 YOU WILL, HOW THE BONDS ARE ISSUED, DON'T PUT THE STATE  
10 AT AN UNFAIR BURDEN. AND THAT'S WHERE THIS BALANCE  
11 BETWEEN, AS WE HEARD EARLIER, BETWEEN ROYALTIES AND THE  
12 BOND ISSUANCE BECOMES IMPORTANT.

13 I'M TRYING TO UNDERSTAND THIS FROM THAT POINT  
14 OF VIEW. DOES THE STATE CARE? ARE THEY GOING TO TAKE  
15 THE SAME POINT OF VIEW AS WE WOULD, THAT WE WANT TO  
16 OPTIMIZE, OR ARE THEY GOING TO BE DISTRESSED THAT WE'RE  
17 TRYING TO COME UP WITH A WAY TO OPTIMIZE THIS IN OUR  
18 FAVOR WHEN THEY WANT THE PAYBACK? IS THAT A QUESTION  
19 THAT'S RELEVANT?

20 MR. KLEIN: IT IS RELEVANT. BUT BASICALLY  
21 THE NUMBERS INDICATE, EVEN THE HIGH END OF THE NUMBER  
22 ARE ROYALTIES THAT HAS BEEN PROJECTED, WHICH HAS BEEN  
23 CONTESTED --

24 DR. PIZZO: THAT NUMBER, I'M THINKING ABOUT  
25 IT IN TERMS OF BIG HIT NUMBERS. IF WE \$500 MILLION IN

1 ROYALTIES, WE WOULD HAVE BLOWN THE TOP OF OFF MOST OF  
2 WHAT WE'VE SEEN IN THE STATE OF CALIFORNIA AMONG ALL OF  
3 OUR SCHOOLS.

4 MR. KLEIN: YOU SEE, WHAT PEOPLE ARE NOT  
5 REALLY FOCUSING ON IS THE DIFFERENCE BETWEEN PRESENT  
6 VALUE AND FUTURE VALUE BECAUSE THE BILLION DOLLARS IN  
7 FUTURE VALUE, REMEMBER, IS 230 MILLION PRESENT VALUE.  
8 SO THAT MEANS ONE RECOMBINANT DNA PATENT HAS YIELDED  
9 THIS KIND OF REVENUE. SO THE POINT --

10 DR. PIZZO: LET ME JUST UNDERSCORE THAT.  
11 ONE.

12 MR. KLEIN: ONE FOR STANFORD, ONE FOR UC SAN  
13 FRANCISCO.

14 DR. PIZZO: IF YOU LOOKED AT ALL THE PATENTS  
15 ISSUED BY ALL OF OUR SCHOOLS, THAT ONE STANDS OUT AS  
16 THE MOST REMARKABLE. MOST OTHERS, AS WE ALL HAVE  
17 TALKED ABOUT THIS BEFORE, DON'T COME ANYWHERE CLOSE TO  
18 THAT.

19 MR. KLEIN: THE POINT IS WHAT WE'RE  
20 SUGGESTING IS THAT ON A PRESENT VALUE PERSPECTIVE,  
21 WE'RE NOT AT RISK OF VIOLATING THE RULES THAT WE HAVE  
22 TO LIVE WITHIN. AND WE CAN STILL COLLECT THE REVENUES,  
23 EVEN THE TOP END OF THE REVENUE RANGE THAT WAS  
24 COLLECTED.

25 WHAT'S IMPORTANT HERE TO REALIZE IS THE STATE

1 WANTS TO WORK WITH US TO MINIMIZE INTEREST COST FOR THE  
2 STATE, BUT THEY WANT THE BENEFIT OF THE ROYALTY  
3 COLLECTION, WHICH UNDER CASE LAW RELATED TO THE IRS, IT  
4 APPEARS THAT THAT WOULD BE ACHIEVABLE. WHAT I'D LIKE  
5 TO DO, SHERRY, THIS ISSUE OF A FINANCE COMMITTEE, I CAN  
6 TALK TO YOU ABOUT OFFLINE NOT TO TAKE UP THE TIME HERE.

7 BUT THE IMPORTANT CONCEPT, THE OTHER HALF OF  
8 THIS CONCEPT PEOPLE NEED TO UNDERSTAND IS THAT TO DATE  
9 WE HAVE NOT IMPLEMENTED AT OUR AGENCY ANY PLANS TO USE  
10 THE LOAN PROGRAM. AND UNDER PROPOSITION 71 AND ARTICLE  
11 35 OF THE CONSTITUTION, WHICH WAS ADDED, IT APPROVES  
12 SPECIFICALLY A GRANT AND A LOAN PROGRAM. UNDER THE  
13 OTHER IMPLEMENTING SECTIONS OF THE INITIATIVE ITSELF,  
14 IT EMPHASIZES THAT WE HAVE A GRANT AND A LOAN PROGRAM.

15 THE LOAN PROGRAM WAS ORIGINALLY INTENDED FOR  
16 FOR-PROFIT ENTITIES WHICH WE ARE NOW DEVELOPING POLICY  
17 FOR. AND IT'S IMPORTANT TO REALIZE THAT IF, FOR  
18 EXAMPLE, WE PUT OUT \$750 MILLION TO BIOTECH COMPANIES  
19 AND PRIVATE INDUSTRY AS LOANS, IN YEARS TWO, THREE, AND  
20 FOUR, IF THEY WERE SEVEN-YEAR LOANS, IN YEARS NINE,  
21 TEN, AND ELEVEN, YOU WOULD HAVE, EVEN WITH MAJOR  
22 LOSSES, BECAUSE MANY OF THESE ARE HIGH RISK LOANS TO  
23 ADVANCE MEDICAL RESEARCH, YOU'D HAVE 850 OR \$900  
24 MILLION IN PROCEEDS COMING BACK. COMING BACK AT THE  
25 VERY TIME IN THE TIMING OF THIS AGENCY'S HISTORY WHEN

1 WE SHOULD HAVE SIGNIFICANT PRECLINICAL TRIALS  
2 OPPORTUNITIES, HOPEFULLY, OR FDA IND'S WHERE WE'RE  
3 GOING TO NEED MORE MONEY.

4 SO FROM A MISSION VIEWPOINT ON A LOAN PROGRAM  
5 VERSUS A GRANT, IT'S VERY IMPORTANT, IF WE'RE GOING TO  
6 LEVERAGE OUR RESOURCES, TO RECYCLE IT. SO OUR  
7 STRATEGIC PLAN DOES NOT ADDRESS ANY RECYCLING OF FUNDS,  
8 SO IT'S DONE EXTRAORDINARILY CONSERVATIVELY, BUT IN  
9 YEAR -- IF WE PUT OUT THE 850, \$900 MILLION IN LOANS IN  
10 YEARS EIGHT, NINE, TEN, AND ELEVEN, YOU WILL REALLY  
11 THEN HAVE YEARS 15, 16, 17, THOSE MONIES COMING BACK  
12 AGAIN AT APPROXIMATELY A BILLION DOLLARS.

13 SO IN TERMS OF THE AGENCY'S ABILITY TO FUND  
14 THE FUTURE DEVELOPMENTS OF THIS TECHNOLOGY IN THE EARLY  
15 STAGES OF DEVELOPMENT AT THIS POINT, THIS LOAN PROGRAM  
16 IS A VERY IMPORTANT STRATEGIC VALUE. AND TO PUT  
17 EVERYTHING IN GRANTS, I WOULD QUESTION WHETHER WE'RE  
18 REALLY HONORING OUR OBLIGATION TO THE PEOPLE OF  
19 CALIFORNIA TO CREATE THE LEVERAGE WE NEED TO ADVANCE  
20 THE MEDICAL RESEARCH PROGRAM AS WELL AS WE CAN.

21 ADDITIONALLY, A LOAN PROGRAM MAY PROVIDE  
22 GREATER PREDICTABILITY OF CAPTURING A REPAYMENT AS  
23 VERSUS ROYALTIES. AND THE TIMING OF IT IS VERY  
24 IMPORTANT TO ADVANCE THIS MEDICAL RESEARCH OF THE  
25 STATE. THESE LOANS CAN BE STRUCTURED BY A TERM I'LL

1 USE AND LATER HAVE TO EXPLAIN IN-DEPTH BOTH TO THE  
2 BOARD AND TO SOME FINANCE COMMITTEE AS WHAT'S  
3 SUBORDINATED DEBENTURE, WHICH MEANS IT'S A LOAN, BUT IT  
4 DOESN'T INTERFERE WITH THE WORKING CAPITAL NEEDS OF  
5 BIOTECH COMPANIES AND THEIR ABILITY TO GET THE NORMAL  
6 LEVERAGE WITH VENTURE CAPITAL OR FINANCIAL INSTITUTION  
7 CAPITAL.

8 SO WE HAVE A MAJOR RESOURCE HERE THAT IS NOT  
9 IN OUR PLANNING THAT IS VERY IMPORTANT TO OUR FUTURE  
10 CASH FLOWS AND OUR MEDICAL RESEARCH FUNDING. AND IT'S  
11 IMPORTANT AS WE MOVE FORWARD AT THIS POINT TO PROVIDE A  
12 BASIC CONCEPTUAL KNOWLEDGE TO THE BOARD MEMBERS THAT  
13 THESE TOOLS ARE OUT THERE, AND WE'LL BE COMING TO THE  
14 BOARD WITH WRITTEN DEFINITION, CHARTS, AND DIAGRAMS,  
15 AND OUTSIDE CONSULTANTS, BUT IT WAS IMPORTANT THAT WE  
16 PROVIDE SOME FOUNDATION, UNDERSTANDING WITH A CORE OF  
17 THE BOARD IN ORDER THAT THERE WOULD BE SOME  
18 UNDERSTANDING AS THINGS COME FORWARD ON OUR AGENDAS OF  
19 THE DIRECTION WE'RE GOING.

20 CHAIRPERSON LANSING: BOB, THIS IS SHERRY. I  
21 THINK I WANT EVERY BOARD MEMBER TO HAVE AN OPPORTUNITY  
22 TO SPEAK, BUT I THINK WHAT YOU WILL GET FROM ME IS A  
23 VERY, VERY, VERY BROAD CONCEPTUAL UNDERSTANDING OF WHAT  
24 YOU'RE SAYING. SOMETHING I COULDN'T REALLY EVEN  
25 ARTICULATE. I JUST SORT OF GET THE GENERAL IDEA.



1 ENORMOUS RESPECT FOR YOU AND YOUR ABILITY IN ALL WAYS  
2 AND IN PARTICULAR JUST AWE IN THIS PARTICULAR AREA, AS  
3 I DO FOR THE GENTLEMAN THAT WAS ALSO EXPLAINING IT. SO  
4 I THINK FROM MY POINT OF VIEW I FIND IT IN THE BROADEST  
5 SENSE OF THE WAY A FASCINATING IDEA THAT I PERSONALLY  
6 NEED A REAL EDUCATION IN AND LOOKING FORWARD TO THE  
7 PAPER, AND I'M LOOKING FORWARD TO MORE BOARD  
8 CONVERSATION, THE FULL BOARD TO HAVE MORE KNOWLEDGE OF  
9 IT. AND I'M GLAD THAT YOU ARE BEGINNING TO GET IT INTO  
10 MY HEAD, WHICH NEEDS A LOT MORE EXPLANATION.

11 DR. PIZZO: SHERRY, THIS IS PHIL. CAN I ADD  
12 TO THAT? IN SOME WAYS I APPRECIATE THE OPPORTUNITY TO  
13 LEARN ABOUT THIS. I'M WORRIED, FOR ME AT LEAST, A  
14 LITTLE BIT OF KNOWLEDGE MIGHT BE DANGEROUS IN THIS  
15 REGARD. BUT THE QUESTION THAT I HAVE, AND I THINK ROAD  
16 TESTING THIS ON US IS PROBABLY IMPORTANT BECAUSE THERE  
17 ARE GOING TO BE SIMILAR AMOUNTS OF CONFUSION. AND  
18 QUESTION IS THE FOLLOWING.

19 SO WE HAVE A CERTAIN PORTFOLIO IN PROP 71  
20 WHICH YIELDS A CERTAIN AMOUNT PER ANNUM THAT WE CAN  
21 STRETCH THAT. LET'S JUST SAY RIGHT NOW THAT IT'S 290  
22 OR SO MILLION DOLLARS A YEAR, JUST WHAT MIGHT BE  
23 DISTRIBUTED. IS PART OF THIS A FUNCTION OF THE  
24 PROPORTIONALITY OF HOW THAT WOULD BE DISTRIBUTED AS  
25 GRANTS VERSUS LOANS?

1 I THINK THAT IS SORT OF A KEY CONCEPTUAL  
2 ISSUE THAT THE BOARD HAS TO COME TO BECAUSE THAT HAS AN  
3 IMPACT ON, IN A SENSE, WHAT ON THE ONE HAND WHAT WILL  
4 GO OUT TO GRANT COMPETING INSTITUTIONS ON THE NONPROFIT  
5 SIDE VERSUS THE AMOUNT THAT WOULD GO TO FOR-PROFIT  
6 INSTITUTIONS THAT WOULD GO FOR THE LOANS. SO THAT'S  
7 ONE THING.

8 THE SECOND IS AS PART OF THAT, THE GRANTS  
9 SIDE BASICALLY IS REVENUE CONSUMING. THE ONLY THING  
10 THAT IT ADDS BACK TO THE STATE IS WHAT MAY COME FROM  
11 ROYALTIES. ON THE LOAN SIDE, WHICH IS GOING TO THE  
12 FOR-PROFIT SECTOR, THERE IS THIS COMPONENT OF RESOURCES  
13 OF MONEY THAT WILL EVENTUALLY COME BACK IN LATER YEARS  
14 WITH INTEREST THAT POTENTIALLY REPLENISHES IT. SO THE  
15 KEY ISSUES ARE THE BALANCE BETWEEN THE PORTFOLIO, HOW  
16 IT'S DISTRIBUTED IN GRANTS AND LOANS, WHICH REALLY  
17 MEANS FOR-PROFIT AND NOT-FOR-PROFIT; AND, SECONDLY, AS  
18 PART OF THAT, THE AMOUNT THAT'S, IN A SENSE, CONSUMED  
19 IN TIME WITH JUST ROYALTIES COMING OR CONSUMED WITH  
20 MONEY COMING BACK WITH INTEREST OVER TIME.

21 SO IS THAT A CONCEPTUAL WAY OF LOOKING AT  
22 WHAT WE'RE TRYING TO DO?

23 MR. KLEIN: I THINK THAT IT IS. AND, AS YOU  
24 KNOW, WE'VE HAD AN IP TASK FORCE. AND ED PENHOET  
25 WANTED THE IP TASK FORCE TO FOCUS ONLY ON THE GRANT

1 SIDE OF THIS BECAUSE THE LOAN SIDE IS GOING TO BE A  
2 DIFFERENT PORTFOLIO. IN FACT, THE STRATEGIC ISSUES  
3 BEFORE THE BOARD ARE GOING TO BE THAT, AS YOU SAY, THE  
4 LOAN SIDE OF THE RESOURCE ALLOWS YOU TO GET MULTIPLE  
5 USES OUT OF THE SAME FUNDS; WHEREAS, THE GRANT SIDE IS  
6 FIXED. AND PARTICULARLY IN THE PRIVATE SECTOR, WHEN  
7 IT'S GONE, IT'S OUT THERE AND IT'S GONE.

8 BUT, FOR EXAMPLE, IN TERMS OF THE BALANCING  
9 OF THIS ON AN OVERALL STRATEGIC BASIS FOR THIS AGENCY,  
10 IF YOU LOOK AT IT SIMPLISTICALLY AND SAY IF I PUT A  
11 QUARTER OF THE PROCEEDS UP FRONT INTO LOANS TO  
12 FOR-PROFITS, BY THE TIME I'M DOWN TO THE LATTER YEARS  
13 OF EIGHT, NINE, TEN, ELEVEN, I'M GOING TO GET BACK 850,  
14 900 MILLION. SO IN TERMS OF THE OVERALL BALANCE OF  
15 PROCEEDS IN THE FIRST 15 YEARS, I MAY HAVE \$1.6 BILLION  
16 THEREFOR THAT ACTUALLY WENT OUT TO FOR-PROFITS VERSUS  
17 TWO AND A QUARTER BILLION THAT WENT OUT TO NONPROFITS.  
18 BECAUSE THE LOAN PORTFOLIO RECYCLES, IT MEANS THAT  
19 YOU'RE REALLY GOING TO HAVE A GREATER REACH WITH A  
20 SMALLER PERCENTAGE ALLOCATION OF THE INITIAL CAPITAL.

21 DR. PIZZO: SO MAY I ASK ANOTHER QUESTION? I  
22 DON'T WANT TO DOMINATE IT.

23 CHAIRPERSON LANSING: SURE.

24 DR. PIZZO: SO THE OTHER QUESTION IS THIS  
25 SEEMS TO ME TO BE A PRETTY STRATEGIC ISSUE AS WELL

1 BECAUSE LET'S JUST FOLLOW BOB'S NUMBER. IF WE HAD A  
2 CERTAIN AMOUNT OF MONEY THAT WAS GOING TO BE ALLOCATED  
3 PER YEAR AND A QUARTER WAS, IN ESSENCE, SUBALLOCATED TO  
4 LOANS, THAT LEAVES THREE-QUARTERS FOR THE GRANT  
5 PROGRAM. ONE OF THE ISSUES THAT, I THINK,  
6 STRATEGICALLY THAT WE SHOULD BE THINKING ABOUT AS WE GO  
7 FORWARD IS HOW MUCH OF THE GRANT, JUST STAYING ON THE  
8 GRANT MONIES, HOW MUCH OF THAT ARE WE GOING TO BE ABLE  
9 TO SPEND IN A REALLY RESPONSIBLE WAY WITH THE MOST HIGH  
10 QUALITY PRODUCTS COMING OUT OF IT. I MEAN THIS IS A  
11 TOPIC THAT I'M ACTUALLY, AT LEAST MYSELF, WORRIED ABOUT  
12 BECAUSE WE'RE A STATE WITH A LOT OF MONEY GOING INTO A  
13 GRANT PORTFOLIO, AND ALTHOUGH WE FRONT-LOADED GRANTS  
14 AND HAD A LOT OF HIGH CALIBER ONES, I THINK WE HAVE TO  
15 BE PREPARED FOR THE FACT THAT THE LEVEL OF THOSE GRANTS  
16 OR THE NUMBERS OF THEM THAT ARE GOING TO ACHIEVE THAT  
17 HIGH CALIBER ARE QUESTIONABLE IN STAYING AT THAT AMOUNT  
18 OVER TIME.

19 SO THAT'S WHY I THINK THIS IS STRATEGIC  
20 BECAUSE IT BEGS THE QUESTION OF WHAT'S THE RIGHT  
21 BALANCE. WHAT I WOULD SAY IS I'D LIKE THAT NOT TO BE  
22 FIXED IN TIME IF WE MOVE DOWN THIS, BUT TO HAVE SOME  
23 FLEXIBILITY SO WE CAN REALLY REACH A TIME TO LOOK AT  
24 WHERE ARE WE GETTING THE BIGGEST BANG FOR PRESENT AND  
25 FUTURE DOLLAR.

1 DR. HENDERSON: BRIAN HERE. AND I THINK THE  
2 OTHER ISSUE IS WE HAVE THIS POTENTIAL OF A LARGE AMOUNT  
3 OF MONEY GOING INTO FACILITIES.

4 DR. PIZZO: WHICH IS KEY BECAUSE WE'RE NOT  
5 GOING TO GET ANYTHING DONE --

6 DR. HENDERSON: WE'RE NOT GOING TO GET  
7 ANYTHING. AND A LOT OF RECRUITMENT GOING ON, PHIL,  
8 WHICH COULD CHANGE THE PICTURE YOU'RE DESCRIBING OR  
9 NOT. IT DEPENDS. BUT WE NEED TO TALK ABOUT IF WE'RE  
10 GOING TO GET THE FACILITIES CONSTRUCTION UNDER WAY TO  
11 THE DEGREE I THINK WE WANT IT UNDER WAY, THEN WE MAY  
12 NOT WANT TO SIPHON A QUARTER OF IT OFF FOR LOANS IN THE  
13 FIRST YEAR OR TWO AND WAIT ON THAT. SO THESE ARE ALL  
14 BOARD SORT OF DISCUSSION ISSUES. I DON'T THINK WE CAN  
15 SORT OF MAKE THAT DECISION OR EVEN A GOOD IDEA OF WHAT  
16 IT'S LIKE IN THIS SORT OF PHONE CALL.

17 MR. KLEIN: NO ONE IS SUGGESTING. THIS IS A  
18 CONCEPTUAL DISCUSSION. BUT THE 300 MILLION THAT GOES  
19 TO FACILITIES IS TOTALLY SEGREGATED FROM ANY DISCUSSION  
20 OF GRANTS OR LOANS FOR RESEARCH. SO THE LOANS WE'RE  
21 TALKING ABOUT ARE TOTALLY SEPARATE AND DO NOT INVADE  
22 THAT \$300 MILLION.

23 DR. POMEROY: I WOULD JUST LIKE TO PICK UP ON  
24 A COUPLE OF POINTS THAT HAVE BEEN MADE. FIRST OF ALL,  
25 I THINK THESE ARE VERY, VERY IMPORTANT ISSUES FOR US TO

1 BE DISCUSSING. I THINK WE NEED TO THINK CAREFULLY  
2 THROUGH THE BEST WAY TO DO THAT, AND I DO THINK THAT WE  
3 NEED TO -- IT IS WITHIN THE PURVIEW OF THE GOVERNANCE  
4 SUBCOMMITTEE TO LOOK AT WHERE THESE THINGS SHOULD BE  
5 CONSIDERED. AND I PERSONALLY WOULD LIKE TO TALK MORE  
6 ABOUT THE POSSIBILITY OF A FINANCE COMMITTEE BECAUSE  
7 THAT DOES FEEL MORE APPROPRIATE THAN THE GOVERNANCE  
8 COMMITTEE FOR THAT SORT OF THING.

9 THE SECOND THING IS THAT I THINK IT WOULD BE  
10 VERY HELPFUL FOR ALL OF THE BOARD MEMBERS TO HAVE A  
11 CONCEPTUAL WHITE PAPER ABOUT THESE ISSUES. I'M NOT  
12 QUITE CLEAR ON WHY THAT WOULD NEED TO GO THROUGH THE  
13 TREASURER'S OFFICE IF IT WAS JUST THE CONCEPTS AS  
14 OPPOSED TO SPECIFIC PROPOSALS. AND IF WE'RE GOING TO  
15 DO OUR DUE DILIGENCE AS BOARD MEMBERS, I THINK WE ALL  
16 WANT TO EDUCATE OURSELVES ABOUT THE BASIC CONCEPTS A  
17 BIT MORE SO THAT WE CAN BE MAKING INFORMED DECISIONS.

18 MR. KLEIN: I THINK, CLAIRE, THOSE ARE  
19 EXCELLENT POINTS. AND THE ONLY PORTION THAT GOES  
20 THROUGH THE TREASURER'S OFFICE IS THE STATE BOND  
21 COUNSEL'S SUMMARY, NOT THE NARRATIVE.

22 DR. POMEROY: SO WOULD IT BE POSSIBLE TO GET  
23 A BACKGROUND PAPER THAT SORT OF SUMMARIZES THE MAIN  
24 POINTS THAT WERE MADE OVER THE PAST HALF HOUR?

25 MR. KLEIN: YES, IT IS. I'M A LITTLE

1       CONSTRAINED RIGHT NOW ON SUPPORT, BUT IT IS. THE KEY  
2       HERE TOO IS MAYBE WHAT WE NEED, AND I LOOK FOR SOME  
3       DIRECTION, IS A SHORT SYMPOSIUM ON THE FINANCIAL SIDE  
4       OF THE STRATEGIC QUESTIONS THAT ARE FACING US FROM A  
5       BOND AND LOAN PERSPECTIVE. THE ISSUE IS WHERE IS THE  
6       RIGHT MECHANISM BECAUSE FITTING THIS INTO A FULL BOARD  
7       AGENDA JUST DOESN'T WORK TOO WELL.

8                 MR. ROTH: I WENT THROUGH THE SUBCOMMITTEE ON  
9       THE IP WHERE THIS WAS DISCUSSED. AND AFTER TALKING  
10      WITH YOU, YOU KNOW, I'M CONVINCED THERE IS A PLACE FOR  
11      A LOAN PROGRAM. BUT IN ADDITION TO WHAT YOU'RE TALKING  
12      ABOUT AND WHAT WE'VE BEEN SUGGESTING, IT'S GOING TO  
13      TAKE REALLY PEOPLE THAT UNDERSTAND THIS AREA OF FINANCE  
14      FROM THE BOARD TO GET ON A FINANCE COMMITTEE, I THINK  
15      THAT'S AN EXCELLENT IDEA, SO THAT IT CAN BE PROPERLY  
16      VETTED.

17                BUT THE OTHER CONSTITUENT THAT WE NEED TO  
18      HAVE SOME CONSULTATION WITH ARE THE PEOPLE THAT MIGHT  
19      ACTUALLY APPLY FOR THESE LOANS AND UNDERSTAND HOW TO  
20      STRUCTURE IT SO THAT IT WORKS FOR THEM TOO.

21                MR. KLEIN: EXACTLY. WE NEED TO GO THROUGH  
22      ESSENTIALLY A SHORT FORM THE SAME PROCESS THE IP  
23      COMMITTEE WENT THROUGH, A TASK FORCE ON THE LOANS,  
24      WHICH WOULD BE A SUBSET OF THE FINANCE COMMITTEE THAT  
25      YOU'RE REFERRING TO. BUT I THOUGHT IT WAS MORE

1 APPROPRIATE TO BRING THE CONCEPT HERE TO GOVERNANCE SO  
2 THEY COULD UNDERSTAND WHY WE WOULD NEED A SEPARATE  
3 COMMITTEE RATHER THAN JUST CREATING A COMMITTEE.

4 DR. PIZZO: YOU ROAD TESTED IT ON US. I  
5 THINK ALL OF US ARE DEALING IN OUR OWN WORLDS WITH SOME  
6 FINANCIAL DATA AND EXPERTISE, BUT I THINK I CAN SAY FOR  
7 MYSELF THESE ARE NEW CONCEPTS. AND I THINK THE  
8 EDUCATION IS GOING TO BE VERY, VERY IMPORTANT. AND IF  
9 WE ARE A SUBSET OF THE BOARD, IT JUST EPITOMIZES THAT  
10 WE'RE GOING TO NEED, AS WE'VE HEARD ALREADY, VERY  
11 CLEAR-MINDED CONCEPTUAL OPINION PAPERS THAT WE CAN GO  
12 THROUGH AND THEN TIME FOR DISCUSSION BECAUSE I THINK  
13 THIS IS GOING TO EVOKE A LOT OF DEBATE.

14 DR. MURPHY: IT STRIKES ME, DUANE, THAT THIS  
15 IS A LITTLE BIT DIFFERENT THAN PUTTING TOGETHER THE IP  
16 POLICY BECAUSE I THINK THAT WHAT WE NEED HERE IS MORE  
17 OF AN EDUCATION THAN DECISION-MAKING. IT SOUNDS TO ME  
18 LIKE BOB AND HIS COLLEAGUES HAVE A REALLY GOOD IDEA OF  
19 THIS AND HOW THIS SHOULD WORK. AND IT ALSO STRIKES ME  
20 THAT THIS IS SO CENTRAL TO THE FUNCTION OF CIRM, THAT  
21 THE WHOLE BOARD SHOULD REALLY UNDERSTAND THIS SO THAT  
22 WE CAN DEFEND IT AND WE CAN MAKE POLICY BASED UPON THIS  
23 IS ONE CONSIDERATION.

24 IT SEEMS TO ME THAT THE LOAN PROGRAM IS AN  
25 IMPORTANT THING FOR US TO CONSIDER, BUT I WOULD ALSO



1 WANT TO MAKE SURE THAT THERE WAS LATITUDE IN THERE SO  
2 THAT THE DECISIONS COULD REALLY BE MADE BASED UPON THE  
3 QUALITY OF SCIENCE. AND RATHER THAN SAYING WE'RE GOING  
4 TO COMMIT X NUMBER OF DOLLARS TO THE LOAN PROGRAM AND X  
5 NUMBERS TO GRANTS, I THINK THAT REALLY NEEDS TO BE  
6 DICTATED BY THE QUALITY OF THE SCIENCE THAT'S PRESENTED  
7 TO THE INSTITUTE.

8 SO I GUESS MY ARGUMENT MIGHT BE A LITTLE BIT  
9 DIFFERENT. I AGREE WITH CLAIRE, THAT HAVING A CLEAR  
10 FOUR-, FIVE-, SIX-PAGE POSITION PAPER EXPLAINING ALL OF  
11 THIS WOULD BE QUITE IMPORTANT. BOB, I THINK THAT THAT  
12 WOULD SHORTEN THE AMOUNT OF DISCUSSION THAT THE FULL  
13 BOARD WOULD NEED, BUT I WONDER IF YOU REALLY NEED TO  
14 PULL TOGETHER AN INDEPENDENT FINANCE COMMITTEE GIVEN  
15 THAT I DON'T SEE A LOT OF DECISIONS HERE BEING MADE.  
16 RATHER, I SEE A LOT OF EDUCATION BEING NECESSARY.

17 MR. KLEIN: THE OTHER SIDE OF THIS IS  
18 WHATEVER YOUR POLICY IS, WE HAVE A FINANCE COMMITTEE OF  
19 THE STATE THAT I SIT ON AND MAKE TWO BOARD APPOINTMENTS  
20 TO. HOWEVER, THAT FINANCE COMMITTEE OF THE STATE,  
21 WHICH INCLUDES THE CONTROLLER, THE TREASURER, AND STATE  
22 DIRECTOR OF FINANCE, DOES NOT GET DOWN TO THE LEVELS  
23 THAT WE MAY BE DISCUSSING.

24 BUT IN TERMS OF FLEXIBILITY, BESIDES THE  
25 QUALITY OF THE SCIENCE, YOU MAY DECIDE THAT YOU HAVE AN

1 ORPHAN DISEASE, AND EVEN THOUGH IT'S A PRIVATE COMPANY,  
2 YOU'RE GOING TO MAKE IT A GRANT BECAUSE THAT PRIVATE  
3 COMPANY CAN'T MAKE IT WORK WITH A GRANT, OR YOU'RE  
4 GOING MAKE IT A LOAN PROGRAM WITH A SUBMARKET RATE LOAN  
5 TO MAKE IT FEASIBLE TO REALLY DEVELOP THE TREATMENT FOR  
6 THAT ORPHAN DISEASE. SO YOU HAVE TO HAVE TREMENDOUS  
7 AMOUNT OF FLEXIBILITY.

8 WHAT I'M TRYING TO DO AT THIS MOMENT IS  
9 UNDERSTAND THE BEST VENUE AND APPROACH TO GETTING THE  
10 INFORMATION TO THE BOARD. A FIVE-PAGE PAPER WILL GIVE  
11 YOU SOME BASIC IDEAS. BUT HOPEFULLY AFTER THIS CALL, I  
12 CAN TALK TO SHERRY AND A COUPLE OF YOU AND TRY AND  
13 BRING TOGETHER SOME IDEAS THAT GIVE THE BOARD SOME  
14 OPTIONS HERE ON HOW WE ACHIEVE THESE OBJECTIVES.

15 DR. PIZZO: RICH, I AGREE WITH WHAT YOU  
16 STATED AT THE END. I TRIED TO COMMENT ON THAT EARLIER  
17 WHEN I WAS TALKING ABOUT PROPORTIONALITY. I THINK WHAT  
18 I WOULD BENEFIT FROM WOULD BE, NOT JUST THE IDEAS, BUT  
19 SOME MODELING THAT SHOWS THE IMPACT OF THESE DIFFERENT  
20 APPROACHES BECAUSE I THINK THAT WILL HELP US TO SHARPEN  
21 OUR THINKING ABOUT THE CHOICES THAT WE'RE GOING TO BE  
22 MAKING.

23 MR. ROTH: RICH, I THINK THERE ARE TWO LEVELS  
24 HERE. ONE IS AN ALLOCATION POLICY, WHICH HOW MUCH OF  
25 THE MONEY WOULD THE BOARD WANT TO SET ASIDE IF THEY

1 DECIDE THAT WAS A GOOD THING TO DO? THAT HAS TO BE A  
2 BOARD DECISION. THE LOAN POLICY ITSELF IS MUCH LIKE  
3 THE IP POLICY. WHAT ARE THE TERMS AND CONDITIONS?  
4 WHAT WILL THE GRANTS -- THERE WILL STILL BE SCIENTIFIC  
5 MERIT THAT WILL HAVE TO BE EVALUATED HERE. ISN'T GOING  
6 TO BE A LOAN PROGRAM THAT IS JUST UP FOR ANYBODY THAT  
7 WANTS TO MAKE A LOAN. WE'RE NOT A BANK. IF THE  
8 SCIENTIFIC REQUIREMENTS ARE RATED AS WORTHY OF WHAT WE  
9 THINK SHOULD BE FUNDED, THEN IT CAN BE IN THE FORM OF A  
10 LOAN RATHER THAN A GRANT.

11 DR. MURPHY: IS THE IP COMMITTEE THE  
12 APPROPRIATE COMMITTEE TO TAKE A WHACK AT THIS?

13 MR. KLEIN: ED SAYS THAT HE IS NOT. HE SAYS  
14 THIS IS NOT AN IP POLICY ISSUE.

15 MR. ROTH: I THINK THERE'S PROBABLY A  
16 SUBGROUP OF THE BOARD WHO DEALS IN THIS WORLD THAT  
17 SHOULD HELP WORK THAT OUT IN A PUBLIC HEARING SETTING  
18 AND THEN COME BACK TO THE BOARD WITH A RECOMMENDATION  
19 ON THE POLICY, NOT ON THE ALLOCATION OR ANY OF THE  
20 THINGS YOU'RE TALKING ABOUT ON THE HIGH LEVEL. THAT  
21 SHOULD BE A BOARD DECISION, AND THE BOARD SHOULD WORK  
22 THAT.

23 DR. PIZZO: I THINK DUANE HAS MADE A GOOD  
24 SUGGESTION.

25 MR. KLEIN: I REALLY DO THINK THIS SUBGROUP

1 OF THE BOARD ENDS UP BEING A FINANCE COMMITTEE, BUT LET  
2 ME PURSUE THE DISCUSSIONS HERE WITH SOME INDIVIDUAL  
3 IDEAS AND COME BACK AFTER WE'VE HAD A CHANCE TO PREPARE  
4 SOME THOUGHTS IN WRITING WITH A SUGGESTION.

5 DR. MURPHY: I MIGHT VOLUNTEER. BRIAN, YOU  
6 WANT TO HANDLE THE PART ABOUT SUBORDINATED DEBENTURES?

7 DR. HENDERSON: I'LL TAKE THAT.

8 CHAIRPERSON LANSING: I'M JUST IMPRESSED YOU  
9 CAN SAY IT.

10 JUST TO BRING A CONCLUSION, WHAT WE WANT TO  
11 DO IS THANK YOU FOR DRAWING THIS, BOB, TO OUR  
12 ATTENTION, AND WE'RE ASKING YOU TO COME BACK TO US AND  
13 TALK TO ANYBODY OFFLINE THAT YOU WANT TO AS TO HOW  
14 WOULD BE THE BEST WAY TO GET THE FULL BOARD EDUCATED  
15 INTO THIS, WHETHER IT REQUIRES A SUBCOMMITTEE, WHETHER  
16 IT REQUIRES OUTSIDE PEOPLE, AS WELL AS STATE PEOPLE.  
17 WE NEED TO TALK ABOUT WHAT IS THE BEST WAY FOR THE FULL  
18 BOARD TO GET EDUCATED SO THAT WE CAN MAKE A DECISION  
19 ABOUT IT.

20 DR. MURPHY: BOB, I WOULD JUST LIKE TO SAY  
21 THAT IT'S REALLY FASCINATING AND IMPORTANT STUFF, AND  
22 THIS IS WHERE YOUR CHAIRMANSHIP OF THE CIRM COMES TO BE  
23 VERY, VERY VALUABLE, AND I THANK YOU FOR BRINGING THIS  
24 UP.

25 CHAIRPERSON LANSING: I SECOND THAT. WITH

1 THAT, ARE THERE ANY MORE COMMENTS FROM CIRM MEMBERS?  
2 ANY FURTHER PUBLIC COMMENT? I KNOW JOHN SIMPSON.

3 MR. SIMPSON: I COULDN'T AGREE MORE ABOUT HOW  
4 THIS CHAIRMAN BRINGS EXPERTISE TO THIS. AND I  
5 CERTAINLY HOPE THAT IT GETS TRANSLATED INTO WRITING SO  
6 THE PUBLIC CAN BE EDUCATED AS WELL.

7 THE OTHER CONCERN THAT I WOULD EXPRESS IS  
8 THAT IF YOU HAVE TOO MANY INDIVIDUAL SERIAL  
9 CONVERSATIONS, YOU MAY BE RUNNING INTO OTHER PROBLEMS.  
10 AND IT MAY BE APPROPRIATE -- I THINK YOU'VE GOTTEN A  
11 SENSE HERE IN A PUBLIC MEETING OF THE WAY TO PROCEED.  
12 I'M NOT SURE THAT YOU WANT TO -- I WOULD COUNSEL YOU  
13 AGAINST HAVING TOO MANY INDIVIDUAL PRIVATE  
14 CONVERSATIONS ON THIS, BUT I DO THINK THAT IT WILL BE  
15 TREMENDOUSLY IMPORTANT AND VALUABLE TO SEE THIS WRITTEN  
16 DOWN BECAUSE I THINK THIS CAN BE A KEY TO FUNDING VITAL  
17 RESEARCH IN THE FUTURE, AND THAT WOULD BE A GOOD THING.

18 MR. KLEIN: THANK YOU VERY MUCH. AND I TRY  
19 AND ALWAYS BE CAUTIOUS ABOUT THAT, BUT I WILL BE  
20 ESPECIALLY CAUTIOUS HERE.

21 CHAIRPERSON LANSING: THANK YOU, JOHN. ARE  
22 THERE ANY OTHER PUBLIC COMMENTS FROM ANY OF THE SITES?

23 MS. KING: YES. WE HAVE ONE HERE IN SAN  
24 FRANCISCO.

25 MR. REED: I HAD A QUESTION. DO I UNDERSTAND

1 CORRECTLY THAT WE'RE TALKING ABOUT LOANS TO BIOTECH  
2 COMPANIES WHO WOULD THEN PAY IT BACK; AND IF THE MONEY  
3 IS PAID BACK, IS IT REINVESTED INTO MORE RESEARCH, OR  
4 IS IT GIVEN BACK TO THE STATE?

5 MR. KLEIN: NO. IT'S SPECIFICALLY SET OUT IN  
6 THE BOND SECTION OF THE INITIATIVE THAT PRINCIPAL AND  
7 INTEREST PAYBACK FROM LOANS GOES OUT INTO MORE LOANS OR  
8 GRANTS.

9 CHAIRPERSON LANSING: THANK YOU, DON. JOHN  
10 SIMPSON HAS ANOTHER PUBLIC COMMENT.

11 MR. SIMPSON: THIS IS A GENERAL PUBLIC  
12 COMMENT IF IT'S APPROPRIATE AT THIS TIME. I JUST  
13 WANTED TO BRING EVERYONE UP TO DATE IF THEY HAD NOT  
14 CAUGHT THE NEWS ABOUT THE WARF PATENTS. OUR CHALLENGE  
15 WAS, IN FACT, ABOUT AS SUCCESSFUL AS IT CAN BE. WHAT  
16 WE UNDERSTAND IS NOT ONLY DID THE PRIOR ART THAT WE  
17 RAISED IN THE CHALLENGE GET CITED IN REJECTING ALL THE  
18 WARF CLAIMS, THE EXAMINERS, IN FACT, FOUND ADDITIONAL  
19 PRIOR ART AND USED THAT AS A REASON, AS WELL AS WHAT WE  
20 HAD RAISED.

21 BEYOND THAT, WE'RE TOLD THAT IT IS VERY  
22 UNUSUAL IN A CASE LIKE THIS TO HAVE MORE THAN ONE  
23 EXAMINER SIGN EACH OF THE DECISIONS. WHAT WAS UNIQUE  
24 HERE WAS EACH OF THE THREE DECISIONS WAS ESSENTIALLY  
25 AGREED TO AND SIGNED BY ALL THREE OF THE EXAMINERS.

1                   SO WE, IN FACT, BELIEVE THAT THESE PATENTS,  
2                   WHICH WE HAVE, I THINK, SHOWN TO BE OVERREACHING AND  
3                   INAPPROPRIATE, WILL, IN FACT, ULTIMATELY BE REJECTED.  
4                   AND WE THINK THAT IS A VERY, VERY GOOD THING FOR STEM  
5                   CELL RESEARCH IN THE ENTIRE UNITED STATES, NOT JUST  
6                   CALIFORNIA.

7                   DR. HENDERSON: CONGRATULATIONS TO YOU.

8                   CHAIRPERSON LANSING: BRAVO. I AGAIN THANK  
9                   YOU. I THINK THAT'S A WONDERFUL WAY TO CONCLUDE THIS  
10                  MEETING WITH THAT GOOD NEWS.

11                 IS THERE ANY OTHER COMMENT FROM ANY SITE,  
12                  PUBLIC OR BOARD MEMBERS? WELL, WITH THAT, THANK YOU.  
13                  AND IT WAS GREAT AND THANK YOU AGAIN, BOB, FOR YOUR  
14                  LEADERSHIP IN THIS IMPORTANT AREA. AND THANK YOU FOR  
15                  THE PUBLIC FOR DON AND JOHN FOR BEING SO LOYAL AND SO  
16                  INSIGHTFUL ALL THE TIME. TO MY FELLOW BOARD MEMBERS,  
17                  THANK YOU FOR YOUR TIME. AND I'M GOING TO LEARN HOW TO  
18                  SAY SUBORDINATED INDENTURES, WHATEVER IT IS. SO THANK  
19                  YOU.

20                 DR. MURPHY: THANK YOU.

21                                 (THE MEETING WAS THEN ADJOURNED AT 4:39  
22                  P.M.)

23  
24  
25

## REPORTER'S CERTIFICATE

I, BETH C. DRAIN, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT OF THE TELEPHONIC PROCEEDINGS BEFORE THE GOVERNANCE SUBCOMMITTEE OF THE INDEPENDENT CITIZEN'S OVERSIGHT COMMITTEE OF THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE IN THE MATTER OF ITS REGULAR MEETING HELD ON THURSDAY, APRIL 5, 2007, WAS HELD AS HEREIN APPEARS AND THAT THIS IS THE ORIGINAL TRANSCRIPT THEREOF AND THAT THE STATEMENTS THAT APPEAR IN THIS TRANSCRIPT WERE REPORTED STENOGRAPHICALLY BY ME AND TRANSCRIBED BY ME. I ALSO CERTIFY THAT THIS TRANSCRIPT IS A TRUE AND ACCURATE RECORD OF THE PROCEEDING.

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