

**PROPOSITION 71: CALIFORNIA STEM CELL RESEARCH BOND INITIATIVE.
CONSTITUTIONAL AMENDMENT AND STATUTE.**

Abbreviated Background Information – Updated October 2004

Introduction: Proposition 71, the California Stem Cell Research and Cures Initiative, is a bond initiative that will appear on the November 2, 2004 ballot. It would amend the State Constitution and enact new statute pertaining to stem cell research.

This initiative would:

- Authorize \$3 billion worth of bonds (an average of \$295M/year for 10 years) to fund stem cell research and facilities in California.
- Amend the California Constitution to establish a California Institute for Regenerative Medicine to make grants and loans for stem cell research and facilities and to establish related regulatory standards and oversight bodies.
- Amend the California Constitution to establish a right to conduct stem cell research.
- Enact detailed statutory language governing the Institute's operations, governance, and award criteria.
- Appropriate \$3 million from the General Fund as a start-up loan to the Institute, to be repaid within 12 months of each loan drawn from bond proceeds.

Potential UC involvement:

- **Governance.** UC representatives would comprise between five and seven of the 29 members of the Independent Citizens Oversight Commission (ICOC), which would govern the Institute. Each of UC's five medical campuses would appoint one representative; in addition, there are two other slots that could go to UC representatives (but given the requirement that these members represent institutions that administer > \$100 million/year in scientific or medical research awards, UC Berkeley and UC Santa Barbara may be the only non-medical UC campuses likely to qualify initially). Among the responsibilities of this body is to make final decisions on research standards and grant awards.
- **Receipt of Funding.** We would expect UC to be very competitive in an award process based upon scientific merit, given that we have some of the leading scientific experts in this area of research. Although the language of the Initiative does not clearly exclude non-California researchers from applying for research grants, the facilities and equipment grants are limited to California.

Governance and role of the Institute:

- A 29-member Independent Citizens' Oversight Committee (ICOC) would govern the Institute, make final decisions on research standards and awards, select members of the working groups, and adopt rules and regulations to carry out the purposes of the Initiative.
- The ICOC would be composed of:

- five representatives of UC medical school campuses, to serve 8-year terms. (The Chancellor of each UC medical campus would appoint one executive officer to serve on the ICOC);
 - eight representatives of other California universities and academic research institutions, to serve six-year terms. As many as two of these eight representatives could be selected from UC's non-medical campuses. Four of the eight slots are set aside for appointees (the Governor, the Lieutenant Governor, the Treasurer and the Controller each appoints one) from California universities, excluding UC's five medical campuses, that have demonstrated success and leadership in stem cell research, that have a recent proven history of administering an average of > \$100M/year in scientific and/or medical research grants and contracts, that either have faculty who are members of the National Academy of Sciences or that have ranked in the last five years in the top ten U.S. universities with the highest number of life sciences patents, and (for two of the four appointees) that have a nationally-ranked research hospital and medical school. The remaining four slots are set aside for appointees from CA non-profit academic and research institutions that are not part of UC, that have demonstrated success and leadership in stem cell research, and that have nationally ranked research hospitals or research or clinical faculty who are NAS members and that have a proven history in the last five years of managing a life-sciences research budget of > \$20 million;
 - twelve representatives (including the Chair and Vice Chair) of various disease advocacy groups, as specified in the initiative to include spinal cord injury, Alzheimer's, Type I and II diabetes, MS/ALS, heart disease, cancer, Parkinson's, mental health, and HIV/AIDS;
 - four representatives from California life-science commercial entities not actively engaged in researching or developing therapies with pluripotent or progenitor stem cells, that have a background in implementing successful experimental medical therapies, and that have not been awarded or applied for funding by the Institute at the time of appointment.
- Rule against multiple representatives from a single institution: The Initiative specifies that only one member could be appointed from a single university, institution or entity (so there could not be two representatives from any one UC campus).
 - Recusal rules: ICOC members would be prohibited from participating in decisions to award a grant or loan to their employer; however, they would be allowed to participate in decisions to award a grant or loan for research involving a disease from which they or their family members suffer or in which they have an interest as a representative of an advocacy organization.
 - Institute working groups: The Institute would have three separate scientific and medical working groups, which would make recommendations to the ICOC on

various matters (including which applications to fund). Final decisions would rest with the ICOC.

- Working group membership/roles:
 - Scientific and Medical Research Funding Working Group – Twenty-three members. Eight ICOC advocate members (including the ICOC Chair); 15 scientists nationally recognized in the field of stem cell research. Would recommend to ICOC the criteria for awarding research grants and loans; review award applications and recommend awards; make funding recommendations based on competitive evaluation, with only scientist members scoring applications for scientific merit; conduct peer review oversight of grantees. Final decisions would be made by the ICOC.
 - Scientific and Medical Accountability Standards Working Group – Nineteen members. Six ICOC advocate members (including the ICOC Chair); nine scientists and clinicians nationally recognized in the field of pluripotent and progenitor cell research; four medical ethicists. Would recommend to ICOC scientific, medical and ethical standards and regulatory issues.
 - Scientific and Medical Research Facilities Working Group – Eleven members. Six members of the Scientific and Medical Research Funding Working Group, the ICOC Chair, and four real estate specialists (who are California residents and who would be prohibited from receiving compensation from construction or development entities providing specialized services for medical research facilities or from any recipient of Institute funding) would recommend to ICOC criteria for awarding grants and loans for buildings, leases, and equipment.
- The Institute could employ up to 50 employees excluding working group members.
- Timing: ICOC appointments are to be made within 40 days of the Initiative's effective date, but the ICOC could operate as long as at least 60 percent of the appointments have been made. The State Controller and State Treasurer are to convene a meeting within 45 days of the Act's effective date to elect a Chair. Within 30 days of appointment of the ICOC, the ICOC members are to appoint the members of the three working groups.

Funding Criteria:

- The Scientific and Medical Research Funding Working Group (15 scientists, 8 disease group advocates who serve on the ICOC, including the ICOC Chair) will recommend research award criteria, review grant and loan applications, and make funding recommendations based on a competitive evaluation, with only scientist members scoring applications for scientific merit. The working group is purely advisory and has no final decision-making authority. Final decisions are made by the ICOC.
- High priority is placed on funding pluripotent stem cell and progenitor stem cell research that is unlikely to receive timely or sufficient federal funding.

- The Scientific and Medical Facilities Working Group (six SMRF members, four real estate specialists, and the ICOC Chair) will recommend facilities and equipment award criteria, and make award recommendations based on a competitive basis. Again, working group is purely advisory and has no final decision-making authority. Final decisions are made by ICOC.
- Priority is given to facilities that will be available for research within two years; funded facilities and equipment must be located in California; grantees must be not-for-profit entities, and grantees must pay prevailing wage to all construction workers.
- Facilities and equipment grants require grantees to secure matching funds of at least 20 percent of the award, with higher matches receiving funding priority.

Funding Allocation:

- At least 97 percent of bond proceeds would go to grants and grant oversight; up to three percent could be used for costs of administration of the Institute; up to three percent could be used by the Institute for research and research facilities implementation costs, including oversight of the grant-making process and operation of working groups.
- At least 90 percent of the amount used for grants will be for research grants.
- Up to 10 percent will be allocated for grants to build scientific and medical research facilities.
- The Institute will limit indirect costs to 25 percent of an award, except that the ICR limitation may be increased by that amount by which a grantee provides matching funds in excess of 20 percent.

Financial Impact:

- The initiative would authorize issuance of general obligation bonds to finance Institute activities up to \$3 billion subject to annual limit of \$350 million. Money would be appropriated from the General Fund to pay for the bonds. The Secretary of State's summary of the initiative indicates that the Legislative Analyst and the Director of Finance estimate a State cost of about \$6 billion over 30 years to pay off both the principal (\$3 billion) and interest (\$3 billion) on the bonds. Payments of about \$200 million per year.
- The Initiative requires that the bonds have no General Fund impact for the first five years. The way it would accomplish that is by using bond proceeds to pay the interest costs in each of the first five years. The effect would be to reduce the total amount of bond proceeds available for research during the first five years by as much as \$126 million. Also, the amount of General Obligation bonds sold after year five would have to be sufficient to cover the costs of repaying the interim loans from the first five years, as well as to cover the prospective costs of funding the Institute.

- At the end of ten years, the total annual debt service (i.e., the total amount of principal and interest on the bonds sold, which will have to be paid with General Fund money) would approximate \$209 million. This assumes interest rates of three percent in the first five years, and GO bonds sold at five percent over 25 years.
- The Initiative assumes that the costs will be offset by \$65 million in incremental tax revenues that will be generated in the first five years (which would represent about 52 percent of the debt service in year six), from sources such as income tax on jobs created by the Initiative and sales tax on supplies purchased as a result of the Initiative. Such anticipated revenues are speculative at best. It is unclear without further economic analysis whether it is reasonable to assume that the Initiative would result in such a high number of jobs and sales of state goods.

UC Position on Proposition 71:

UC as an institution has remained officially neutral on Proposition 71, though several UC faculty members have actively endorsed the measure. President Dynes sent a February 2004 letter to the Initiative's backers noting that UC would be pleased to see more funding for stem cell research, but that UC rarely takes official positions on voter initiatives, that we have some concerns about taking a position on a measure that would increase the State's bond debt given the current budget climate, and that we have some concerns about the precedent and consequences of using a constitutional amendment and initiative statute (which can be difficult to amend) to semi-permanently designate funding for a particular field of research.

Although UC has not taken an official "support" position on Proposition 71, we recognize that the measure could, if passed, result in substantial new funding for stem cell research and facilities (including funding for research that cannot be supported with federal dollars), and that it is likely that a significant percentage of that money could flow to UC. Should Proposition 71 pass, UC will work hard to contribute to the success of the Institute, both by participating in its governance and, we hope, by conducting a significant part of the funded research.