

2010 STATE POLICY PRIORITIES

State Budget and Tax Issues

California's fiscal crisis is expected to dominate the policy arena in Sacramento in 2010. Financial projections for the upcoming budget year forecast budget shortfalls in excess of \$20 billion. After the Legislature enacted deep cuts in 2009, including painful cuts to higher education, public health programs, and other vital social services, further cuts will be politically difficult for lawmakers to pursue. In light of this challenging political dynamic, CHI must remain focused on protecting provisions in current law that encourage biomedical research and innovation in the state.

In 2009, CHI was involved in successfully lobbying for a huge victory for the biomedical industry – the inclusion of a single-sales factor, net-operating loss carry-back provisions, and tax credit sharing among affiliated companies in the February budget negotiations. CHI anticipates that these victories could be threatened in the California state budgeting process in 2010, as well as through ballot initiatives aimed at repealing the Legislature's actions.

CHI also closely followed the Commission on the 21st Century Economy in 2009. The Commission released their final report to the Legislature on September 29. While the Legislature has held informational hearings to vet the Commission's proposals, no formal action has been taken to ratify or reject them. CHI expects that tax reform will continue to be a top priority for the Legislature and the Schwarzenegger administration.

In 2010, CHI will:

- Advocate to protect higher education funding and patient access to biomedical therapies in the state budget, while working to foster a tax environment that promotes biomedical research and innovation (including protecting the state's research and development tax credit, and opposing increased taxation and fees on the California biomedical industry)
- Continue to advocate for corporate fiscal policies that promote the expansion of the biomedical industry in California, and for the protection of the single-sales factor apportionment, net-operating loss carryback, and transferability of tax credits among affiliated companies
- Launch CHI's Tax Working Group to evaluate legislative proposals for reforming California's tax structure and to provide feedback to the Legislature and state agencies on how proposed policies will impact the biomedical research community.

Education and workforce development

California's institutions of higher education continued to suffer from unprecedented budget cuts in 2009. The UC and CSU systems were hit with budget cuts that exceeded \$2 billion. As a result, both university systems implemented system-wide furloughs, staggering tuition increases, program cuts, and enrollment caps. California's K-14 education budget, which

includes funding for the state's community college system, was slashed by \$6.1 billion. These cuts threaten the ability of California's education system to focus on science, technology, engineering, and math (STEM) education that will produce an educated workforce which our biomedical research and innovation companies rely on to discover the next generation of therapies.

In 2010, CHI will:

- Advocate strongly against further budget cuts to UC, CSU, and California Community Colleges and work to promote restoring funding to higher education
- Educate policymakers on the implications of the budget cuts to UC, CSU, California community colleges, and others who help train a future workforce for the life sciences community that reflects the rich diversity of California
- Effectively communicate the role that the industry plays in providing well paying jobs to students with math and science degrees.

Environmental regulation

The California Legislature continues to propose and enact some of the most restrictive environmental regulations in the United States. These regulations, however well intentioned, seriously dampen the state's ability to attract and retain firms engaged in biomedical research and innovation. CHI has developed a strong reputation for environmental stewardship and credibility rooted in evidence-based positions that rest on solid scientific research. Recently, issues such as extended-producer responsibility, medical sharps waste, pharmaceuticals in the environment, green chemistry, and the emergent field of nanotechnology have emerged in legislation – and we expect continued activity on these issues in the coming year.

In 2010, CHI will:

- Convene its inaugural Environmental Summit, bringing industry experts, academic researchers, issue advocates, and policy makers together to discuss and debate current environmental issues
- Mobilize the CHI Environmental Working Group to educate policymakers on the practical implications of stringent environmental requirements.
- Provide legislators with a clearer understanding of our highly regulated industry's commitment to environmentally sound practices.
- Continue to be the dominant voice on environmental issues for the life sciences community with the administration, regulatory agencies, and the legislature.

Healthcare Reform

While the federal healthcare reform debate is expected to continue into the early part of 2010, CHI anticipates that any reform measures passed at the federal level will have serious implications for state level policies. Several provisions within the healthcare reform debate, including a possible public option, will require implementation at the state level. CHI has been an active participant in the healthcare reform debate at the federal level, and we are prepared to advocate on behalf of the biomedical industry in California when the state legislature begins to implement mandates within the reform bill. CHI is also actively monitoring a provision within the state budget agreement passed in July that requires the

Department of Health Care Services to apply for a waiver from the Centers for Medicare and Medicaid Services (CMS) to move patients from a fee-for-service model of care to a managed-care system in the state's Medi-Cal program.

In 2010, CHI will:

- Continue to monitor the healthcare reform legislation at the federal level and prepare to advocate on behalf of the industry in Sacramento when the legislature begins to implement reform measures
- Participate in stakeholder meetings with DHCS and monitor the progress of any proposal to transition patients to a managed care system within Medi-Cal