

# LEGISLATIVE UPDATE

By David Helmsin

As legislators return to Sacramento in January for the second half of the two-year session, California's nagging budget woes will dominate their agenda. The state is entering the 2010/11 fiscal year with a projected \$21 billion budget deficit, on a base budget of less than \$100 billion. Coping with this shortfall will be a herculean task – particularly since it follows on the heels of last year's \$60 billion budget trimming torture.

The situation is exacerbated by federal law that requires maintenance of certain service levels or risk the loss of substantial federal funding and the fact that \$8 billion in current funding attached to the federal stimulus package is set to expire in June. In addition to some legitimate program reductions, prior efforts to balance the budget have relied heavily on loans, transfers and one-year shifts. With an assortment of "gimmicks" already in play, deeper spending cuts and/or revenue increases may be the only available alternatives in 2010.

Borrowing is not much of an option because the state is already drowning in an estimated \$200 billion in debt. It currently costs \$6 billion per year to service that debt, a number that is expected to increase to more than \$10 billion a year in 2020. Every time the state adopts some major initiative in transportation, water, education or whatever, it floats another bond. As a result, all of the major credit agencies now give California a rating at the lowest of the ten most populous states.

Revenue increases will also be difficult – not only because most believe you can't tax your way out of a recession, but also because it is an election year and supporting new taxes is the kiss of death for most candidates. With a current popularity rating of 17%, the legislature will be hesitant to support any direct taxes, although eliminating "loopholes" and increasing certain fees may be suggested. After voter rejection of this year's tax-related ballot measures and with his own approval rating at an all time low of 27%, it is equally unlikely that the Governor will propose any new taxes as well.

With respect to the 2010 elections, voters will replace 27 termed-out legislators, the governor and at least three

other statewide officers. Most of the excitement is focused on the top of the ticket, where a recent Public Policy Institute Poll has former Ebay executive Meg Whitman taking 32% of likely Republican voters in the June Primary, leading former Congressman Tom Campbell at 12% and current Insurance Commissioner Steve Poizner at 8%. Running unopposed for the Democrats is yet-to-declare Attorney General Jerry Brown, whose 47% of all likely voters beats Whitman's 43% in a potential November match-up.

In what promises to be a chaotic year, TOC will concentrate on a number of short-term objectives: stabilizing California's horseracing venues; managing cash flow and structural account deficits; making integrity adjustments to industry reporting and oversight; resolving satellite operation and mini satellite start-up issues; and enhancing wagering opportunities. It is also likely that legalization of Internet poker will be back on the table, and TOC will work to make sure that horseracing is treated fairly in any related legislative deal making.

To achieve these and other longer-term objectives, TOC will need to work hand in hand with other horseracing partners through the Alliance or other collaboration. We will also need to work on building/strengthening relationships with key Legislators and Administration officials; creating coalitions with other stakeholders such as fairs, organized labor, local communities and ADW providers; and mobilizing grassroots support from horsemen, fans, employees, vendors, etc.

TOC, and thoroughbred racing in general, had a very productive legislative year in 2009 – securing \$32 million in license fee relief, increasing California-bred purses, creating additional protection for handle, adding some cash flow flexibility and getting a few other useful measures adopted. 2010 is shaping up to be another exciting year in the legislature, and TOC will be working diligently to protect owner interests at each step of the process. Owners are encouraged to contact Guy Lamothe in the TOC office with any questions or concerns regarding TOC's legislative program.

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