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## **Governor, lawmakers agree to early budget package**

**The measures include tax breaks for new home buyers and green-technology companies, and diversion of \$1.1 billion in transit funds to pay down the estimated \$20-billion deficit.**

By Shane Goldmacher

10:59 PM PDT, March 22, 2010

Reporting from Sacramento

After weeks of bickering over how to cut the deficit-ridden budget, Gov. Arnold Schwarzenegger and lawmakers agreed Monday to trim \$1.1 billion from mass transit but give new tax breaks to home buyers and green-technology companies.

The governor, who signed part of the package into law Monday evening, said the tax incentives -- which could add to the budget woes -- are crucial to the state's economic recovery.



"The package of bills as written will provide significant benefit to the state's general fund and will help put Californians back to work," he said in a statement. He expects to sign the rest of the package later in the week.

The linchpin of the legislation is the tax credit of up to \$10,000 for first-time home buyers and those purchasing newly built homes. It would take effect May 1.

Another element of the package would allow companies that buy green-technology manufacturing equipment to avoid sales tax on those purchases for 10 years. It would start immediately.

The agreement came after Schwarzenegger announced last week that he would not approve the transit-reduction package that the ruling Democrats pushed through the Legislature. The governor pressed for deeper cuts and cited lawmakers' failure "to take meaningful steps to stimulate job creation."

With the tax breaks in place, the governor changed direction, approving the plan to divert \$1.1 billion from mass transit to pay down the deficit, which is estimated at \$20 billion.

To get at the money, lawmakers and the governor are rewriting gasoline-tax laws, swapping a levy that state law designates for mass transit with a tax that can be directed to closing the deficit.

The plan preserved more than \$400 million in the budget for bus and rail systems, at the insistence of Democrats. Schwarzenegger had initially pushed to eliminate state funding for mass transit entirely.

Many local transit agencies are supporting the compromise.

"This is probably just about the best we can do right now," said Jane Reifer, who chairs Transit Advocates of Orange County.

Monday's deal marks the first dent Sacramento has made in California's deficit. Schwarzenegger vetoed earlier legislation that Democrats said would have cut more than \$2 billion more from the budget. The governor said the plan relied on unrealistic assumptions and ultimately would not save the state as much as the Democrats claimed.

Senate President Pro Tem Darrell Steinberg (D-Sacramento) has called the early-year budget actions a "down payment" on the deficit. Lawmakers have largely avoided the politically sticky task of slicing away at education, health and human services so far this year, hoping an improved economy and help from Washington will shrink the deficit to a more manageable size.

The tax break for home buyers won't help with that task. Lawmakers are setting aside \$200 million to pay for it. Buyers can receive 5% of a home purchase price back as a state tax credit, up to \$10,000, as long they reside there for two years.

A similar program that passed last year was wildly popular. Buyers snatched up all \$100 million in available credits within months.

The green-technology credit approved Monday passed unanimously in both houses -- a rare feat in the fractious Capitol -- and lawmakers hailed it as an important investment in California's burgeoning green industry.

"It will create jobs," said Assemblyman Bob Blumenfield (D-Woodland Hills).

There is no cap on the green credits, which worries some activists.

"They absolutely should have a cap on there," said Lenny Goldberg, executive director of the California Tax Reform Assn. "You don't know how it's going to be used and misused."

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