

# O'MALLEY IS LOOKING AT GAS TAX

## Governor would link rate to rising costs for roads

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[SUN REPORTER]

**GAITHERSBURG** // Maryland's gasoline tax would go up in 18 months — and possibly sooner — if Gov. Martin O'Malley's plan to add \$400 million a year in transportation funding is approved by the General Assembly.

Although an immediate increase in the gas tax is not part of the \$2 billion revenue plan the Democratic governor has been rolling out over the past week, he said yesterday that he will push to tie future increases to the rising cost of road and bridge construction materials.

At present rates of inflation, that would average \$63 million a year, an increase of about 0.8 cents a year from the current rate of 23.5 cents per gallon, state officials said.

As the proposal is structured, new rates would not take effect for about 18 months. But O'Malley also suggested he would be open to supporting an immediate increase in the gas tax, which was last raised in 1993, if the legislature approved it.

Business leaders, including the **Greater Baltimore Committee**, have been pushing for an immediate 10 cents-per-gallon increase for transportation needs.

"So very much of what we are putting forward is our best estimate of where we can find consensus among the ... members of the General Assembly," O'Malley said. "There is always the possibil-

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ity that there will be a greater amount of consensus by the time we reach a special session."

Discussion of the gas tax came yesterday as O'Malley formally unveiled his plan to add about \$392 million a year to the state's transportation trust fund.

The infusion of cash for roads and mass transit would come from an increase in the tax on car sales, known as the titling tax, a rise in the corporate income tax and a few other measures.

Although the governor is offering his transportation plan in conjunction with a broader budget package, the measures announced yesterday would not go toward closing Maryland's projected \$1.7 billion budget shortfall.

O'Malley announced his plans at a Gaithersburg park-and-ride lot overlooking Interstate 270, using the backdrop of traffic-choked Montgomery County to make his point, though the highway was running free and clear during the news conference.

The governor said the state is facing a \$40 billion backlog in transportation projects and that without new money, Maryland's economy would be at risk.

"Marylanders in the Washington area waste a full week of work every year sitting in bumper-to-bumper traffic," O'Malley said. "It's a different kind of tax. It's a tax by circumstance. A tax based on our failure to invest."

### Response unclear

Whether the General Assembly would be amenable to an immediate gas tax increase is unclear. Senate President Thomas V. Mike Miller, a Southern Maryland Democrat, backed a 12-cent increase earlier this year, but House Speaker Michael E. Busch has been wary of raising the gas tax.

"The average family has struggled with increases in energy costs from electricity and heating, and they're now seeing gas costs of between \$2.70 and \$3 a gallon," said Busch, an Anne Arundel County Democrat.

"It has eaten up a lot of their discretionary income, and it becomes very hard for any elected official to support an increase in the gas tax."



Sen. David R. Brinkley, the minority leader from Frederick County, said Republicans are generally opposed to a gas tax increase. The GOP caucus has opposed all of O'Malley's proposals to increase taxes to balance the budget, but their objections to the gas tax are different, he said.

Half of the transportation trust fund goes toward mass transit, which is of little benefit in the rural communities that most Republicans represent, Brinkley said. Creating a dedicated funding source for mass transit, paid for by the communities that use it, would free up enough money at the current gas tax rate to maintain and expand the road system, Brinkley said.

"We favor the investment in roads, bridges and transportation infrastructure," Brinkley said. "I am very much opposed to the motoring public paying for most of the mass transit in the current system."

However, business groups favor a transportation tax increase. **Greater Baltimore Committee** President Donald C. Fry has called for O'Malley to add a gas tax increase to his proposal, saying the state needs \$600 million annually to keep up with its needs.

James C. Dinegar, president of the Greater Washington Board of Trade, said in a statement that his group would support an effort to raise the gas tax.

"Region-wide, transportation issues are critical to accommodating the continued success of this area," Dinegar said.

O'Malley's plan calls for the vehicle titling tax to be increased from 5 percent to 6 percent. That means the tax on a \$20,000 car would increase from the current \$1,000 to \$1,200.

The rate is 2.75 percent in Delaware, 3 percent in Virginia, 5 percent in West Virginia and 6 percent in Washington and Pennsylvania.

The Maryland Automobile Dealers Association issued a statement yesterday opposing O'Malley's plan and suggested a compromise: Levy the tax on the difference between the cost of a new car and the value of a trade-in. More than 40 states do that, the

group said.

The group estimated that its plan would generate about \$70 million a year. O'Malley's plan would raise \$166 million a year.

The governor sought to emphasize yesterday that his proposal to raise the corporate income tax from 7 percent to 8 percent would not put Maryland at a competitive disadvantage with neighboring states.

At the news conference, O'Malley stood next to a chart showing the corporate income tax rates in Pennsylvania, Washington, New Jersey, West Virginia and Delaware, which range from 9.99 percent in Pennsylvania to 8.7 percent in Delaware. The chart did not mention Virginia, where the rate is 6 percent.

The increase would generate about \$110 million a year, to be divided equally between transportation and higher education.

O'Malley said he would like to use revenue from the corporate income tax increase to continue a freeze on tuition at University System of Maryland campuses for another year or two but that he would have to negotiate with the legislature about how much money to dedicate to that goal, given the system's large needs for new buildings and equipment.

University System Chancellor William E. Kirwan, who stood by O'Malley's side in the news conference, said the money would ensure the state's economic competitiveness.

"To our partners in the private sector, I want you to know we are going to use these funds to ensure we have the quality of facilities and the capacity to deliver for you the highly skilled and highly educated work force you are going to need in the decades ahead," Kirwan said.

Although business leaders have agreed with O'Malley that higher education and transportation are crucial to economic development, the state Chamber of Commerce released a report saying a higher corporate tax would drain thousands of jobs from the state.

## Competitive issue

Another of the governor's proposals, "combined reporting," would be an even greater drain, decreasing Maryland's competitiveness, business leaders say.

Companies with subsidiaries and affiliates in Maryland would be required to file a single report and pay taxes based on the whole group's business activity in Maryland.

"We feel it would increase the cost of doing business in Maryland," said Chamber of Commerce spokesman Will Burns.

O'Malley has long said he supports combined reporting, which proponents say would prevent large companies doing business in Maryland from hiding profits in other states. Yesterday, he explicitly made it part of his package of tax law changes. A report this summer from Comptroller Peter Franchot showed that about half of the state's largest companies did not pay taxes last year.

O'Malley's appearance in Gaithersburg was the fourth in the past week to pitch elements of his tax package. Last week, he unveiled plans to increase the sales tax rate from 5 percent to 6 percent; cut the state property tax by 3 cents per \$100 in assessed value; and make the state income tax more progressive, a change that would have most Marylanders paying less but top earners paying much more.

He is scheduled to appear today at a horse farm in northern Baltimore County, in what is likely to be his first public step in a push to legalize slot machine gambling.

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Sun reporter James Drew contributed to this article.

