DEPARTMENT OF AUDITS AND ACCOUNTS

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January 6, 2017

Honorable Larry Walker, III
Senator
323-B Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill (LC 40 1242)

Dear Senator Walker:

The bill would exempt the purchase of motor fuels by public school systems for the operation of school buses from the motor fuels excise tax. At current rates, this tax consists of 29.4 cents per gallon charged on the quantity sold of diesel fuel, and 26.3 cents per gallon charged on the quantity sold of gasoline. The bill would be effective for purchases on or after July 1, 2017.

As shown in Table 1, Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue between $8.9 million and $9.8 million for FY 2018, growing to between $10.9 million and $12.4 million in FY 2022. Details of FRC's analysis are included in the appendix.

Table 1. High and Low Revenue Loss Estimates

(*$ millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Total Revenue Loss	$9.8	$10.4	$11.0	$11.7	$12.4
Low Total Revenue Loss	$8.9	$9.4	$9.9	$10.3	$10.9

The Department of Revenue will need to update and create schedules related to motor fuel in its tax systems, create new forms, and develop training as a result of the bill. One-time costs for contract and part-time personnel for these tasks is estimated to be $20,125.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The school districts in Georgia submit a yearly detailed expenditure survey for financial reporting purposes to the Department of Education, including data on the costs incurred on motor fuels to operate school buses. Based on trade press reports and other sources, it is assumed that the school bus fleet in Georgia is made up of 90 percent diesel buses and 10 percent gasoline buses. Diesel buses are approximately 20 percent more efficient in terms of miles per gallon, according to the U.S. Department of Energy, thus it is estimated that diesel buses make up about 88 percent of total fuel spending. In the 2009 and 2010 school years, according to trade publisher School Bus Fleet, the diesel share of fuel expenditures for school buses in the state was roughly 88 percent. This share is assumed for the 2010-15 school years and, together with average fuel price and expenditures data, results in estimated consumption of diesel and gasoline for school bus operations over the period as shown in Table 2.

Table 2. Georgia Department of Education Expenditures on Motor Fuels and Estimated Gallons Consumed of Diesel and Gasoline

Fiscal Year	2010	2011	2012	2013	2014	2015
Energy Expenditures for Student Transportation ($ *millions*)(i)	$79.84	$97.43	$119.81	$121.77	$114.69	$93.19
Price of Diesel (ii)	$2.77	$3.39	$3.88	$3.92	$3.87	$3.25
Price of Gas (ii)	$2.69	$3.17	$3.60	$3.59	$3.53	$2.85
Estimated Gallons Consumed (*millions*):						
Diesel	25.34	25.30	27.18	27.35	26.05	25.26
Gasoline	3.57	3.69	4.00	4.07	3.90	3.92

(i)Georgia Department of Education.
(ii) United States Energy Information Administration (EIA) 12-month average gasoline and diesel prices for Lower Atlantic (PADD 1C) region.

The base year for the forecasted consumption growth was estimated as the average consumption over FY 2010 through FY 2015 or approximately 26.3 million gallons of diesel and 4 million gallons of gasoline.

According to the United States Energy Information Administration (EIA) the fuel economy of large trucks, presumably including school buses, is expected to improve annually by approximately one percent between 2015 and 2022. Miles driven to transport children to school are expected to grow between zero and three percent over the time period estimated. Taken together, it is assumed that gallons consumed of diesel and gasoline by school buses will grow annually by between negative one percent and three percent. That is, the low consumption and revenue estimate is based on no growth in miles driven and one percent annual improvement in school bus fuel economy while the high estimate is based on three percent annual growth in miles driven and no improvement in school bus fuel economy.

The per gallon excise tax rate differs for diesel and gasoline and both are indexed to grow over time based on the growth in the Consumer Price Index (CPI) and the growth rate in fuel efficiency of news cars sold in Georgia. After FY 2018 the rates will increase based on the fuel efficiency of new cars sold in Georgia only. According to the EIA the average miles per gallon of new cars sold

nationally is expected to grow by approximately four percent between 2015 and 2022. The excise tax rates effective January 1, 2017 are 29.4 cents per gallon and 26.3 cents per gallon for diesel and gasoline, respectively. Allowing for a range in overall fuel economy gains of between 2 and 4 percent, and also 1-2 percent inflation, the excise tax rate is assumed to grow between three and six percent annually over the estimation period.

Table 2. High and Low Revenue Loss Estimates

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Consumption Estimate:					
Diesel Consumption (*millions of gallons*)	28.65	29.51	30.40	31.31	32.25
Gas Consumption (*millions of gallons*)	4.33	4.46	4.60	4.73	4.87
Diesel Excise Tax Rate	$0.301	$0.310	$0.319	$0.329	$0.339
Gasoline Excise Tax Rate	$0.269	$0.277	$0.286	$0.294	$0.303
High Total Revenue Loss ($ *millions*)	**$9.78**	**$10.38**	**$11.01**	**$11.68**	**$12.39**
Low Consumption Estimate:					
Diesel Consumption (*millions of gallons*)	25.45	25.20	24.95	24.70	24.46
Gas Consumption (*millions of gallons*)	3.85	3.81	3.77	3.73	3.70
Diesel Excise Tax Rate	$0.310	$0.328	$0.348	$0.369	$0.391
Gasoline Excise Tax Rate	$0.277	$0.294	$0.311	$0.330	$0.350
Low Total Revenue Loss ($ *millions*)	**$8.94**	**$9.39**	**$9.85**	**$10.34**	**$10.85**