DEPARTMENT OF AUDITS AND ACCOUNTS

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January 30, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 34 5007)

Dear Chairman Powell:

The bill would exempt jet fuel sold at qualifying airports for commercial aircraft that will be consumed out of state from the four percent state sales and use tax. To qualify for the exemption, aircraft must have a certified maximum takeoff weight of more than 12,500 pounds and regularly used to carry passengers. Additionally, Georgia airports must have more than 750,000 takeoffs and landings during the year to qualify. The bill does not affect local sales and use tax. This bill would become effective July 1, 2017.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a FY 2018 state revenue reduction of $15.1 million to $30.5 million (Table 1). The reduction would be between $20.3 million and $42.8 million in fiscal year 2022.[1] The estimates are based on expected fuel consumption and future fuel prices, which are very volatile. Details of FRC's analysis are contained in the appendix.

Table 1. Estimated State Revenue Loss from LC 34 5007

($ in Millions)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
High Loss Estimate	$30.5	$35.2	$38.3	$40.6	$42.8
Low Loss Estimate	$15.1	$17.2	$18.5	$19.5	$20.3

The Department of Revenue estimated that the tax exemption will result in approximately $31,800 in additional agency costs. These include approximately $28,000 to update IT systems and $3,800 for form changes, policy updates, and training.

[1] Under federal law, revenue from the state's final percentage point of state sales and use tax must be dedicated for airport purposes. The proposed exemption would eliminate the revenue collected for that purpose. The one percentage point represents about one-fourth of the state revenue loss each year.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/jb

Analysis by the Fiscal Research Center

Under current law, all sales of jet fuel are subject to a four percent state sales tax rate, with the exception of fuel for international flights departing from ATL, where jet fuel is exempted due to the designation of the area as a Free Trade Zone under federal law. Thus the analysis that follows addresses domestic flights and fuel use only. The subject bill would:

- Exempt purchases made for out of state consumption at a qualifying airport for a qualifying commercial aircraft from the 4 percent state sales tax (but not local taxes).
- A qualifying airport is one that has had over 750,000 takeoffs and landings in a calendar year. ATL is the only qualifying airport and no other airport is likely to qualify in the foreseeable future.
- A qualifying commercial aircraft is one with a maximum takeoff weight of greater than 12,500 pounds that provides regularly scheduled passenger flights. All commercial passenger aircraft depart from ATL that are fueled by jet fuel are assumed to meet this minimum weight requirement.
- For purposes of this law, fuel loaded into an aircraft with an in-state destination is deemed to be used entirely in-state and would not be exempt.
- Fuel loaded into an aircraft bound for an out-of-state destination at a qualifying airport and aircraft is deemed to be used 45 percent in-state and 55 percent out-of-state, thus 55 percent of such fuel would be exempt.
- Based on available consumption and jet fuel price data for the period, if this exemption were in place in FY 2016, it would have reduced state sales tax revenues by approximately $17 million. Jet fuel prices were at unusually low levels in recent periods and are forecasted by the U.S. Energy Information Agency (EIA), in its reference case forecast, to adjust upward in the near term toward its historical trend, which adjustment is reflected in the FY 2016 through FY 2022 reference case estimates herein.
- Newly exempted gallons of jet fuel are expected to be between 325 and 331 million gallons in FY 2018 and consumption is expected to grow by between 1.5 and 2.5 percent annually. These consumption and consumption growth ranges are used in estimating the high and low expected bounds of the revenue loss estimates, with the midpoints used in estimating the reference case.
- Jet fuel prices are forecasted to be $1.73 per gallon in FY 2018 increasing to $2.20 by FY 2022, according to the EIA's latest reference case forecast. The historical variability in the price of jet fuel suggests that prices could reasonably be expected to fall within a range of about $1.16 to $2.30 per gallon in FY 2018, increasing to a range of $1.47 to $2.93 per gallon in FY 2022. Prices outside that range would, of course, result in higher or lower revenue losses from the exemption, compared to current law, than estimated herein.

Based on these data, jet fuel consumption at ATL for domestic flights in FY 2016 is estimated to be approximately 593 million gallons. The EIA expects consumption of jet fuel to grow by between 1.5 and 2.5 percent on an annual basis between 2016 and 2022. Based on Federal Aviation Administration (FAA) airport departure data, 96.6 percent of jet fuel purchased at ATL is

estimated to be for passenger flights with an out-of-state, domestic destination. Table 2 provides the resulting high, low, and reference case consumption forecasts of jet fuel sales at ATL for flights with a domestic out-of-state destination as well as the exempted gallons under LC 34 5007.

Table 2. Estimated Jet Fuel Sales for Domestic Flight Consumption

(in millions of gallons loaded)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
High Consumption Scenario:					
Out-of-state passenger flight gallons	602	617	632	648	664
Exempted gallons (55%)	331	339	348	356	365
Reference Case Scenario:					
Out-of-state passenger flight gallons	596	608	620	632	645
Exempted gallons (55%)	328	334	341	348	355
Low Consumption Scenario:					
Out-of-state passenger flight gallons	590	599	608	617	626
Exempted gallons (55%)	325	329	334	339	344

Jet fuel prices can be extremely volatile, rising and falling around the longer-term trend by about 33 percent per year, on average, several times since 2000, resulting in an extremely wide band of price scenarios in EIA forecasts and possible growth rates in prices ranging from about -1 percent to almost 10 percent annually between 2018 and 2022. The price recently reached its lowest levels since the early 2000's and the baseline or reference case EIA scenario projects the price growing by 6.2 percent annually between FY 2018 and FY 2022 after rebounding by 2018 from current lows toward the historical trend. Based on historical variability in jet fuel prices, low and high bounds of likely prices for a given year around forecasted prices were developed for FY 2018-22. For FY 2018, these bounds are estimated to be $1.16 to $2.30 per gallon around the reference case forecast of $1.73. Table 3 provides the reference case fuel price forecast, and high and low expected bounds of prices. Estimates in Table 1 of the foregone sales tax revenues are calculated from the fuel volumes in the previous table and the price levels in Table 3 for each scenario.

Table 3. High and Low Fuel Price, and State Revenue Estimates

(in millions except prices)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Price Scenarios:					
High	$2.30	$2.59	$2.75	$2.85	$2.93
Reference	$1.73	$1.95	$2.07	$2.14	$2.20
Low	$1.16	$1.31	$1.39	$1.44	$1.48