



## DEPARTMENT OF AUDITS AND ACCOUNTS

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**Greg S. Griffin**  
STATE AUDITOR  
(404) 656-2174

February 5, 2018

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

SUBJECT: Fiscal Note  
House Bill 735 (LC 43 0771ER)

Dear Chairman Powell:

The bill would provide an income tax credit for maintenance expenditures related to railroad track owned or leased by Class III railroads. The credit is 50 percent of railroad track maintenance expenditures, with a credit maximum of \$3,500 per track mile per year. In addition to Class III railroads, persons transporting property using a Class III railroad's facilities or persons furnishing railroad-related property or services to a Class III railroad are also eligible for the credit with respect to maintenance of their assigned track miles. The credit is effective for tax years beginning on or after January 1, 2019.

Georgia State University's Fiscal Research Center (FRC) estimated the bill would result in a reduction in state revenue of \$2.6 million to \$4.8 million in FY 2021, the first year of the bill's full effect. FRC did not anticipate a significant change in subsequent years. Details of the analysis are in the attached appendix.

**Table 1. State Revenue Effects of HB 735 LC 43 0771ER**

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High	-	(\$2.4)	(\$4.8)	(\$4.8)	(\$4.8)
Low	-	(\$1.3)	(\$2.6)	(\$2.7)	(\$2.8)

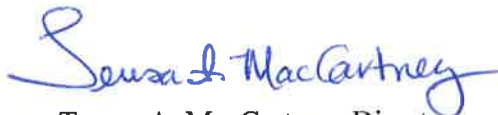
### Impact on Expenditures

The Department of Revenue (DOR) anticipates the need for an auditor at an annual cost of \$90,000. In addition, DOR estimated one-time costs of \$68,000 for updating IT systems, vendor certification, form creation, and equipment for the new auditor position.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is fluid and cursive, with a horizontal line extending from the end.

Greg S. Griffin  
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is cursive and includes a large, stylized initial "T".

Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/mt

### **Analysis by the Fiscal Research Center**

This bill draws upon the tax credit model of the federal Railroad Track Maintenance Credit Program. Authorized within the Internal Revenue Code in 2005, this program provided tax credits to qualifying rail carriers and related individuals for 50 percent of track maintenance costs not to exceed \$3,500 per mile; the credit expired at the close of 2013. In its 2015 Georgia State Rail Plan, the Georgia Department of Transportation (GDOT) identifies this program model as a possibility for rail-related funding in the state. The estimated state revenue impact of this tax credit for fiscal years 2019-23 relies upon data provided by GDOT in the same 2015 plan document.

- In 2014, Class III railroads collectively operated (owned and leased) a total of 1,362 track miles in the state.
- High estimates assume the maximum credit available per mile per year to the total mileage owned and leased by Class III railroads.
- Low estimates are based on the tabulation of 4-year maintenance project plans reported in the GDOT report for Class III railroads, applying the \$3,500 per mile per year credit limit where a given railroad would reach the cap. Planned expenditures total approximately \$40.8 million over four years, resulting in credits earned averaging approximately \$2.5 million per year through 2018. Expenditures and resulting credits are assumed to grow from that level at 3 percent per annum.
- Given the first date for expenditures to qualify for the credit, firm taxable years beginning on or after January 1, 2019, it is assumed that the credit will first impact state revenues in FY 2020 with a partial-year effect.