



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

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

January 25, 2019

Brett Harrell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1094)

Dear Chairman Harrell:

The bill would exempt fuel used by railroads subject to regulation by the Surface Transportation Board from the state sales and use tax. The exemption would apply to both Class I railroads that operate in the state and 25 short line railroads. The bill does not provide an exemption from local sales tax on fuel. The bill also has no effective date, though it is assumed to be April 1, 2019 for the purposes of the fiscal note.

Impact on State Revenue

The University of Georgia's Carl Vinson Institute of Government (CVIOG) estimated that the bill would decrease state revenue \$9.1 million in fiscal year 2020, the first full year of the bill's impact (Table 1). The revenue loss would be slightly higher in subsequent years. The attached appendix details the analysis.

Table 1. Projected Revenue Loss under LC 43 1094

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue Loss	\$2.2	\$9.1	\$9.2	\$9.4	\$9.6

Impact on State Expenditures

The Department of Revenue reported that the bill would not result in significant additional costs.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Kelly Farr". The signature is written in a cursive style with a long horizontal line extending to the right.

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Carl Vinson Institute of Government

Railroads remit sales tax on diesel fuel directly to the Georgia Department of Revenue. Sales tax data were obtained from the two Class I railroads operating in the state and from the Georgia Railroad Association on a sample of short line operators. These data indicate that an estimated \$8,884,070 was paid in state sales tax during calendar year 2018.

Trends that might affect sales tax revenue include the price of diesel fuel, and either an increase or decrease in fuel use by the railroads.

- *Price of diesel fuel* – The U.S. Energy Information Administration (EIA) publishes price projections for most major energy sources to 2050. It does not publish price projections for the specific type of off road diesel used by locomotives. It does, however, publish a more general set of price projections for diesel fuel used in transportation. This series was used as a proxy for projecting changes in locomotive diesel based on the assumption that it shares a similar cost structure in terms of both the price of crude oil and refining costs. The price of Transportation Diesel is expressed in \$/MMBtu (Dollars per Million British Thermal Units). Ten-year price projections (Table 1A) for the years 2019-2029 in this series equate to an average increase of roughly 2% annually. Consequently, this projected 2% per year figure was used to trend locomotive diesel prices. EIA price projections beyond ten years were considered to be too far into the future, and too far beyond the scope of the fiscal note to be relevant.

Table 1A. Projected Cost of Diesel Fuel

Year	Diesel Fuel 2018 \$/MMBtu
2017	19.586187
2018	23.159742
2019	22.720024
2020	24.200548
2021	24.279846
2022	24.073952
2023	24.335907
2024	24.835159
2025	25.221354
2026	25.402544
2027	26.099861
2028	26.332130
2029	27.170647

Source: U.S. Energy Information Administration, Annual Energy Outlook 2019

- *Use of Fuel* – The Bureau of Transportation Statistics collects and publishes data on Class I Rail Freight Fuel Consumption and Travel. These data have been collected from a variety of sources over the years, as noted below. Data on locomotive unit miles and fuel consumed between 2006 and 2016 (Table 2A) exhibits a number short term fluctuations based on the prevailing economic conditions at any given time and changes in locomotive fuel

efficiency. The most recent such fluctuation due to economic conditions may be seen in the years encompassing the 2007-2009 recession. The long-term trend, however, has been relatively flat over this extended 2006-2016 time period shown in figures 1 and 2. Certainly, the trends in both data series since 2010 or 2011 have been flat. Further, CSX reports that fleet upgrades have produced increased fuel efficiency for locomotives used in both switching operations and over mainline tracks. CSX reports that some newer units have 25 percent greater efficiency than the units they replace. This suggests that fuel use may be flat even as rail shipments increase.

Table 2A. Locomotive Miles and Fuel Consumed, 2006-2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Locomotive Unit-Miles	1,660	1,609	1,559	1,309	1,415	1,468	1,486	1,497	1,523	1,510	1,431
Fuel Consumed (million gallons) ¹	4,192	4,062	3,886	3,192	3,494	3,685	3,600	3,682	3,867	3,692	3,385
¹ Excludes passenger and work trains											
Source: Bureau of Transportation Statistics											