



DEPARTMENT OF AUDITS AND ACCOUNTS

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March 27, 2019

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 447 (LC 43 1367ERS)

Dear Chairman Hufstetler:

The bill would create the Georgia Major Airport Authority that would govern and operate Hartsfield-Jackson Atlanta International Airport. The bill would also extend the state sales tax exemption on jet fuels through FY 2024, exempt aviation gasoline from the state motor fuels tax, and create a new excise tax on aviation fuels at an initial rate of 10¢ per gallon. Absent the exemptions in the bill, jet fuel would be taxed at four percent and aviation gasoline at 1¢ per gallon. It would permit local government to impose an additional 1¢ per gallon local tax. All tax revenue from the excise taxes would be used for aviation purposes. Authority members would be appointed effective January 1, 2020, while the aviation fuel taxes would be imposed effective July 1, 2019.

Costs Associated with Airport Transfer

The Georgia State Finance and Investment Commission (GSFIC) provided three cost estimates to address the \$2.64 billion in outstanding debt of Hartsfield-Jackson Atlanta International Airport. As shown in Table 1, the amounts include \$19.83 million if existing debt is transferred to the state, \$134.37 million (in today's dollars) if refunding bonds are issued to defease existing airport debt over several years, and \$2.52 billion if cash is used to defease existing debt. See Appendix A for details.

Table 1. Options for Outstanding Debt of Airport (in Millions)

State Fund Expenditures	Option A: Debt Assumption	Option B: Debt Defeasance/ Refinancing	Option C: Cash Defeasance
Transfer (\$7.50/Bond)	\$19.83	\$19.83	\$19.83
Issuance (\$5.00/Bond)	-	\$13.80	-
Additional Debt Service	-	\$100.75 ¹	-
<u>Cash Defeasance</u>	-	-	<u>\$2,503.37</u>
Total Transaction Costs	<u>\$19.83</u>	<u>\$134.37</u>	<u>\$2,523.20</u>

¹ Additional debt service payments are estimated at \$162.4 million over the 2021 through 2042 period. The \$100.75 represents the net present value of that amount.

If the transition is delayed, there are factors that could both decrease and increase these costs. Under Option B, a delay could result in a larger portion of the refunding bonds being non-taxable, with lower interest rates and lower costs to the state. However, as the city's current short-term notes are converted into long-term debt, the state will incur higher costs because refunding bonds for the long-term debt will likely be taxable.

We could not provide a reasonable estimate of other potential costs to the state associated with a transfer of the airport. Other state costs could include attorney fees for regulatory matters and possible litigation, as well as compensation that could be provided for the asset transfer. This analysis does not consider potential retirement issues, such as pensions and healthcare, for the current city of Atlanta employees that might be transferred to the authority.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill's tax-related provisions would increase total revenues to the state by \$15.4 million in FY 2020 (Table 2), with the gain increasing slightly in subsequent years for the high consumption estimate. While total revenue would increase, revenue to the general fund would decrease by \$34.5 million to \$35.9 million in FY 2020. The more than \$50 million difference would be attributable to aviation fuel excise tax revenue, which would be dedicated to aviation purposes. See Appendix B for details of FRC's analysis.

Table 2. Revenue Effects Under HB 447 LC 43 1367ERS

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Revenue Effect:					
High Estimate	\$15.4	\$15.5	\$16.1	\$16.8	\$17.5
Low Estimate	\$15.4	\$14.9	\$15.0	\$15.1	\$15.1
General Fund Only:					
High Estimate	(\$35.9)	(\$37.1)	(\$38.4)	(\$39.6)	(\$41.0)
Low Estimate	(\$34.5)	(\$35.2)	(\$35.9)	(\$36.6)	(\$37.3)

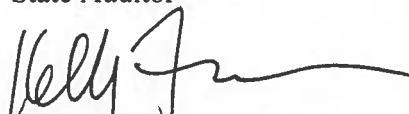
Costs Associated with Aviation Fuel Excise Tax

The Department of Revenue would require no additional funding to implement the provisions of the bill.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

Appendix A: GSFIC Options for Outstanding Airport Debt

Outstanding Long-Term Debt Issued Pursuant to the City's Master Bond Ordinance As of January 1, 2020

	Outstanding Par	Debt Service to Final Maturity Date	Debt Service to Call Date	Debt Service Reserve Funds
General Airport Revenue Bonds (GARBs)	\$1,337,735,000	\$1,956,558,538	\$1,447,329,525	\$ 170,755,094
Passenger Facility Charge Revenue Bonds (PFCs)	700,515,000	978,047,008	803,679,160	72,757,173
Short-Term Notes	605,114,000	605,114,000	605,114,000	-
	<u>\$2,643,364,000</u>	<u>\$3,539,719,545</u>	<u>\$2,856,122,685</u>	<u>\$ 243,512,267</u>

In addition to the above debt obligations, there is \$143,520,000 outstanding in Customer Facility Charge (CFC) Bonds issued by the City of College Park for the purchase of a Rental Car Center (located offsite from the Airport) for which the City of Atlanta is obligated contractually to make debt service payments through 2031. The CFC Bonds are supported by a \$5.00 charge on each car rental transaction and those revenues are not regulated by the FAA. In addition, there is a capital lease of which \$9.3 million is outstanding as of June 30, 2018 per the City's Department of Aviation's financial statements. These debt items are not included in this analysis.

Option A - New state authority assumes existing outstanding Airport debt of the City of Atlanta

The amount of funds needed to pay the transfer costs to assume the existing outstanding Airport debt of \$2.64 billion is estimated to be \$19,825,230 (0.75% of total outstanding par).

In addition to paying all costs associated with the transfer of the Airport, the following provisions must be met according to Section 604 of the Master Bond Ordinance:

- Transferee must undertake all City obligations under the Master Bond Ordinance and any agreements between the City and airlines serving the Airport (this analysis does not account for the various agreements between the City and the airlines serving the Airport)
- Opinion of Bond Counsel: No adverse effect on the tax-exempt status of the Bonds; no default under Bonds, Airline Agreements, or contracts relating to the Bonds
- Opinion of counsel retained by the City regarding numerous FAA matters
- Opinion of an Airport Consultant: No diminution of Airport revenues; At least 130% of the annual Debt Service Requirement on all Bonds secured by any category of Revenues to be Outstanding after such transfer
- Opinion of a Financial Advisor: Transfer will not result in a downgrade of credit rating on Airport bonds

Option B – Issue refunding bonds of the new state authority to defease existing outstanding Airport debt of the City of Atlanta

The bond documents provide that bondholders will be paid principal and interest on the bonds until they are matured or called. Since there are outstanding bonds, a defeasance would be necessary due to the call provisions for those bonds. There are two options to provide funds for a defeasance to fund an escrow account to pay bondholders through the applicable call dates: (1) Refunding Bond Proceeds or (2) Cash proceeds (see Option C).

Refunding bonds could be issued by the new state authority to provide sufficient proceeds to fund the escrow account. The Series 2010A GARBs, 2010B PFCs, and the Short-Term Notes may be currently refunded because the call dates are within 90 days of January 1, 2020. Due to federal restrictions included in the TCJA adopted in 2017, all other outstanding Airport Bonds would have to be advanced refunded with taxable bonds. This assumption does not provide for the release of any proceeds in the Debt Service Reserve Fund (DSRF); it is our current assessment a DSRF will be required for the refunding bonds.

The total amount of refunding bonds that will need to be issued to provide proceeds to defease the outstanding par of \$2,643,364,000 and pay issuance costs is estimated to be \$2,760,700,000. This option would result in estimated additional debt service payments over the financing period of \$162.4 million (a net present value of \$100,745,100).

The difference in estimated annual cash flows is as follows:

Date	Prior Debt Service	Refunding Debt Service	Cash Flow Savings (Cost)
1/1/2021	236,595,621	242,026,250	(5,430,629)
1/1/2022	207,164,609	212,598,700	(5,434,091)
1/1/2023	207,291,784	212,719,450	(5,427,666)
1/1/2024	206,843,846	215,926,100	(9,082,254)
1/1/2025	206,860,309	215,943,900	(9,083,591)
1/1/2026	207,077,409	216,157,100	(9,079,691)
1/1/2027	212,508,284	223,277,500	(10,769,216)
1/1/2028	212,623,034	223,392,250	(10,769,216)
1/1/2029	212,163,634	222,930,250	(10,766,616)
1/1/2030	205,814,109	216,585,750	(10,771,641)
1/1/2031	135,581,784	146,348,750	(10,766,966)
1/1/2032	135,553,496	146,318,500	(10,765,004)
1/1/2033	136,855,328	147,623,750	(10,768,423)
1/1/2034	80,889,356	91,664,000	(10,774,644)
1/1/2035	44,266,044	48,369,750	(4,103,706)
1/1/2036	44,299,100	48,402,250	(4,103,150)
1/1/2037	44,342,300	48,449,250	(4,106,950)
1/1/2038	44,388,000	48,495,750	(4,107,750)
1/1/2039	44,430,750	48,537,250	(4,106,500)
1/1/2040	44,487,000	48,594,250	(4,107,250)
1/1/2041	32,266,500	36,296,000	(4,029,500)
1/1/2042	32,303,250	36,330,000	(4,026,750)
Total	2,934,605,545	3,096,986,750	(162,381,205)

The Short-Term Notes are not included in the debt service schedule. The assumption is there should be no difference provided the short-term notes are not replaced by the City with long-term bonds prior to the transfer.

Option C – Provide cash to defease existing outstanding Airport debt of the City of Atlanta

The amount of cash needed to defease the existing debt is estimated to be \$2,503,374,294. This amount plus the Debt Service Reserve of \$243,512,267 is estimated to be sufficient to provide the \$2,856,122,685 needed to pay debt service through the applicable call dates. This is based on the total escrow deposit of \$2,746,886,561 earning 2.561156%.

Outstanding Long-Term Debt, as of January 1, 2020

	Outstanding Par	Final Maturity	Call Date	Debt Service to Final Maturity Date	Debt Service to Call Date
GARBs					
2014B	\$ 124,495,000	1/1/2033	1/1/2024	\$ 176,577,250	\$ 147,534,000
2014C	95,330,000	1/1/2030	1/1/2024	122,358,000	111,636,000
2012A	56,150,000	1/1/2042	1/1/2022	92,988,450	61,367,700
2012B	164,495,000	1/1/2042	1/1/2022	275,303,750	180,734,000
2012C	200,550,000	1/1/2042	1/1/2022	335,584,200	220,295,700
2011A	39,850,000	1/1/2021	Non-Callable	41,816,700	41,816,700
2011B	166,560,000	1/1/2030	1/1/2021	218,531,250	174,888,000
2010A	151,440,000	1/1/2040	1/1/2020	242,991,850	151,440,000
2010C	338,865,000	1/1/2030	1/1/2021	450,407,088	357,617,425
	<u>1,337,735,000</u>			<u>1,956,558,538</u>	<u>1,447,329,525</u>
PFCs					
2014A	523,605,000	1/1/2034	1/1/2024	774,254,320	626,769,160
2010B	176,910,000	1/1/2026	1/1/2020	203,792,688	176,910,000
	<u>700,515,000</u>			<u>978,047,008</u>	<u>803,679,160</u>
Totals - GARBs and PFCs					
	<u>\$2,038,250,000</u>			<u>\$2,934,605,545</u>	<u>\$2,251,008,685</u>
Short-Term Notes*					
Bond Anticipation	300,000,000	1/1/2020	1/1/2020	300,000,000	300,000,000
Commercial Paper	305,114,000	1/1/2020	1/1/2020	305,114,000	305,114,000
	<u>605,114,000</u>			<u>605,114,000</u>	<u>605,114,000</u>
Totals - All					
	<u>\$2,643,364,000</u>			<u>\$3,539,719,545</u>	<u>\$2,856,122,685</u>

* Analysis assumes the Short-Term Notes are not fixed out with long-term debt prior to the transfer of the Airport.

Appendix B: Revenue Analysis by the Fiscal Research Center

HB 447 LC 43 1367ERS would extend to 2024 the current sales tax exemption on the purchase or use of jet fuel in the state and would create a new 10 cent per gallon excise tax on the fuel. The bill would also exempt aviation gasoline from the state motor fuel tax, under which it is currently taxed at a rate of 1 cent per gallon, and subject it to the new excise tax on aviation fuels.

The 10 cent per gallon rate would subject to adjustment each year based on the growth in jet fuel and aviation gasoline prices during the previous calendar year, with adjustments to take effect on July 1 of each year, beginning July 1, 2020. As a newly enacted tax on aviation fuels, the excise tax would not be grandfathered under federal regulations that require proceeds of taxes on aviation fuels that were enacted after 1987 to be used only for aviation purposes. Thus, revenues from the new excise tax would be dedicated to that purpose rather than going to the general fund. Similarly, a portion of the effect of the exemption from sales tax, 1 percentage point out of the 4 percent state tax, would be a reduction in aviation-dedicated funds while the balance would be a reduction in state general funds.

The following summarizes the analysis and assumptions made in estimating the revenue effects:

- Georgia Department of Revenue (DOR) requires separate reporting of aviation fuel sales taxes and has provided data on such sales tax collections from jet fuel by county for all months from July 2015 through the last month before the suspension took effect, July 2018, and for local taxes on aviation gasoline from July 2016 through January 2019. These data, along with jet fuel price data from the U.S. Energy Information Administration (EIA) and aviation gasoline prices from DOR local motor fuel tax bulletins, were used to estimate the statewide volume of jet fuel and aviation gasoline sold in the state.
- The EIA's short-term forecast projects U.S. consumption of jet fuel by the transportation sector to decline by 0.5 percent per year between 2018 and 2020. The estimates assume a high consumption growth estimate of zero percent per year until 2020 and a low consumption growth estimate of -0.5 percent annually through 2020. Their long-term outlook forecasts jet fuel consumption in the South Atlantic region to grow by between 0.67 percent and 1.39 percent annually through 2024. The high and low growth estimates after 2020 bracket these growth rates at a high of 1.5 percent and a low of 0.5 percent.
- The Federal Aviation Administration (FAA) forecasts the consumption of aviation gasoline for air carriers and general aviation together to grow at -1 percent annually between 2018 and 2028. DOR data indicate 10.7 percent growth in gallons of aviation gasoline consumed in Georgia between FY 2017 and FY 2019. EIA long term forecast for U.S. aviation gasoline consumption to have zero growth between 2017 and 2024. The high and low growth estimates for aviation gasoline after 2020 are 0.0 percent and 5 percent per annum respectively.

Table B1 provides the resulting high and low forecasts of jet fuel and aviation gasoline consumption for FY 2020 through FY 2024.

- According to the EIA, the average price of jet fuel from refiners for FY 2018 was \$1.905 per gallon. Though prices were around 10 percent higher in the fall of 2018, they have since fallen back; the most recent spot price was \$1.905 as well. According to the EIA short-term forecast, the average monthly price of jet fuel is expected to grow by between zero and one percent annually between 2018 and 2020. The estimates assume these growth rates for the low and high cases respectively through 2020. The EIA long-term forecasts project the price of jet fuel to grow by between 1.48 and 1.69 percent annually through 2024. The low- and high-growth

estimates after 2020 assume price growth of 1.4 and 1.8 percent per annum respectively. For purposes of calculating local motor fuel tax rates on aviation gasoline, DOR reports an average retail price of \$3.00 per gallon that has remained unchanged since at least July 2016. For future periods, prices of aviation gasoline are assumed to change proportionally with jet fuel prices.

These projected price changes are the basis for the estimated annual adjustments to the aviation fuels excise tax rates as shown in Table B2. Table B3 summarizes the revenue changes for the extension of the sales tax exemption, the elimination of the 1¢ per gallon motor fuel tax on aviation gasoline, and the establishment of the 10¢ per gallon excise tax on jet fuel and aviation gasoline.

Table B1. High and Low Aviation Fuel Consumption Estimates

<i>(millions of gallons loaded)</i>	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Jet Fuel					
High Estimate	614.2	623.4	632.8	642.2	651.9
Low Estimate	602.1	605.1	608.1	611.1	614.2
Aviation Gasoline					
High Estimate	12.5	13.1	13.8	14.5	15.2
Low Estimate	12.2	12.8	13.5	14.1	14.8

Table B2. High and Low Prices and Excise Tax Rates

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Jet Fuel Price per Gallon:					
High Estimate	\$1.94	\$1.98	\$2.01	\$2.05	\$2.09
Low Estimate	\$1.91	\$1.93	\$1.96	\$1.99	\$2.01
Excise Tax Rates per Gallon:					
High Estimate	0.101	0.102	0.104	0.106	0.108
Low Estimate	0.100	0.100	0.101	0.102	0.103

Table B3. High and Low Estimates of Sales Tax, Motor Fuel, and Excise Tax Effects

<i>(\$ millions)</i>	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Sales Tax Exemption Effects:					
High Estimate – 3% General Fund	(\$35.8)	(\$37.0)	(\$38.2)	(\$39.5)	(\$40.8)
High Estimate – 1% Aviation	(\$11.9)	(\$12.3)	(\$12.7)	(\$13.2)	(\$13.6)
High Estimate – Total	(\$47.7)	(\$49.3)	(\$51.0)	(\$52.7)	(\$54.4)
Low Estimate – 3% General Fund	(\$34.4)	(\$35.1)	(\$35.7)	(\$36.4)	(\$37.1)
Low Estimate – 1% Aviation	(\$11.5)	(\$11.7)	(\$11.9)	(\$12.1)	(\$12.4)
Low Estimate – Total	(\$45.9)	(\$46.8)	(\$47.6)	(\$48.6)	(\$49.5)
Motor Fuel Tax – Aviation Gasoline 1¢ per Gallon					
High Estimate – General Fund	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.2)
Low Estimate – General Fund	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
Aviation Fuel Excise Tax Revenues:					
High Estimate – Aviation	\$63.3	\$64.9	\$67.2	\$69.6	\$72.0
Low Estimate – Aviation	\$61.4	\$61.8	\$62.7	\$63.7	\$64.8