



DEPARTMENT OF AUDITS AND ACCOUNTS

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Greg S. Griffin

STATE AUDITOR

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December 2, 2020

Honorable Viola Davis
State Representative
404-D Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1712)

Dear Representative Davis:

The bill would eliminate the state sales tax exemption on the sale of jet fuels effective July 1, 2021. It reiterates the suspension of state sales tax on jet fuel sales beginning August 1, 2018 remains in effect through June 30, 2021.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state revenue between \$34.6 million and \$50.8 million in fiscal year 2022, with collections increasing in subsequent years (see Table 1). The difference between total revenue and general fund revenue is the 1 percentage-point portion of the state 4 percent tax that, by federal law, must be used for aviation purposes. The bill does not affect local sales tax revenues as those applicable to the sale of jet fuel were not suspended along with the state tax. Details of the analysis are included in the appendix.

Table 1. Revenue Effects Under LC 43 1712

(\$ millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Revenue Effect:					
Low Case	\$34.6	\$37.3	\$37.9	\$38.4	\$38.9
High Case	\$50.8	\$53.1	\$55.7	\$58.3	\$61.2
General Fund Only:					
Low Case	\$26.0	\$28.0	\$28.4	\$28.8	\$29.2
High Case	\$38.1	\$39.8	\$41.8	\$43.7	\$45.9

Impact on State Expenditures

The Department of Revenue (DOR) estimated that the bill would result in approximately \$72,000 in one-time costs due to necessary changes to the agency's Integrated Tax System.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in black ink that reads "Kelly Farr".

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The subject bill would eliminate the current state sales tax exemption for jet fuel beginning on July 1, 2021, the first day of FY 2022. The bill has no effect on local sales taxes or any revenues related to sales of jet fuel before FY 2022.

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

- Georgia Department of Revenue (DOR) reporting of state sales tax collections from the sales of jet fuel is available from July 2015 through July 2018; only county collections data where a local tax applies are available after the current law suspension took effect. These pre-suspension state data, along with jet fuel historical and forecast price data from the U.S. Energy Information Administration (EIA) and jet fuel consumption forecasts for domestic flights from the National Department of Transportation (DOT) form the basis of the estimate.
- National fuel consumption data for domestic flights from the DOT was shared down for Georgia by using the ratio of implied gallons from the DOR jet fuel reports to national fuel consumption for the same periods. Implied gallons are calculated from the sales tax base implied by the DOR reported tax collections and historical price data from EIA. In FY 2018, an implied 579 million gallons of jet fuel were purchased in Georgia, representing 4.9 percent of national jet fuel consumption. This share applied to the national fuel consumption data implies that about 606 million gallons of jet fuel were purchased in Georgia in FY 2019 and 508 million in FY 2020.
- The International Air Transport Association (IATA) is an industry group that monitors and forecasts the airline and air cargo industries. IATA data indicates that air passenger transport has been drastically affected by the COVID pandemic. The latest data indicates that domestic revenue passenger kilometers (RPK's), a key airline metric, was down by 80 percent year over year in September 2020 and is expected to be down 60 in 2021 from 2019 levels. RPK does not equate directly fuel consumption as scheduled flight cutbacks have been smaller than the decline in passengers; airlines are simply flying with more empty seats. The high and low consumption estimates instead assume FY 2021 fuel purchases will be 55 percent below FY 2019. The high consumption estimate then assumes consumption to recover to FY 2019 levels by FY 2023 and grow by 0.8 percent thereafter, the FAA's current long run airline forecast. The low consumption estimates assume consumption will take until FY 2024 to recover to FY 2019 levels and grow at 0.4% thereafter.
- According to the EIA the average per gallon price of jet fuel in October 2020 was \$1.05, an unusually low price likely due to decreased demand during the COVID pandemic. The EIA's short-run forecast projects the price of jet fuel to recover to around \$1.52 per gallon by the end of 2021. EIA's long run reference case forecast projects a price of \$2.05 per gallon on average in calendar 2021, growing to \$2.50 by 2026. The low case estimate assumes an average price in state FY 2022 of \$1.52 followed by slow price growth of one percent per annum. The high case assumes prices corresponding to the EIA's reference

case forecast, growing from about \$2.09 per gallon on average in FY 2022 to \$2.44 per gallon in FY 2026.

Table 2 provides the resulting high and low forecasts of jet fuel consumption and prices for FY 2022 through FY 2026.

Table 2. High and Low Jet Fuel Consumption and Price Estimates

(\$ and gallons in <i>millions</i>)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Consumption					
Low Case	570	608	611	613	616
High Case	608	612	617	622	627
Price Per Gallon					
Low Case	\$1.52	\$1.54	\$1.55	\$1.57	\$1.58
High Case	\$2.09	\$2.17	\$2.26	\$2.34	\$2.44
Jet Fuel Expenditures					
Low Case	\$866	\$934	\$947	\$960	\$974
High Case	\$1,271	\$1,327	\$1,392	\$1,458	\$1,530