



## 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

March 29, 2021

Honorable Chuck Hufstetler  
Chairman, Senate Finance Committee  
121 State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 588 (LC 43 2031TS)

Dear Chairman Hufstetler:

The bill amends two tax provisions and allows the Georgia Department of Transportation (GDOT) to use an alternative contracting method for certain projects. The changes include:

- Subject to appropriation, dedicating the state sales tax revenue generated from fuel sold to contract or common carriers regulated by the United States Surface Transportation Board for use exclusively on freight and logistics projects. The fiscal impact is a reduction of the general fund revenues that would have been raised by the sales of fuel to freight rail companies. The state sales tax on this locomotive fuel would be reduced if not appropriated for the stated purpose for any two consecutive or nonconsecutive years and eliminates the tax upon a third year of non-appropriation.
- A provision, regarding the state hotel-motel tax, that would reduce or repeal the tax in the event proceeds are not appropriated for transportation purposes for two and three years, respectively. Because this appears redundant to, and less stringent than, similar language in existing subsection (e), which is not repealed, the effect on state general funds of this provision is nil.
- Establishing an alternative contracting method for GDOT to execute contracts for these transportation projects. The use of alternative contracting would be limited to no more than seven projects over ten years and funding for these projects would be limited to no more than five percent of GDOT's prior year capital budget.

The bill is effective upon enactment; for purposes of this note, sales of locomotive fuel beginning on July 1, 2021 are assumed to be dedicated for freight and logistics projects.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would redirect between \$2.7 million and \$4.7 million from the General Fund in FY 2022. The amount would increase slightly in subsequent years. Details of the analysis are included in the appendix.

**Table 1. General Fund Revenue Effects of HB 588 LC 43 2031TS**

(\$ millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
High	(\$4.7)	(\$4.7)	(\$4.8)	(\$5.0)	(\$5.3)
Low	(\$2.7)	(\$2.8)	(\$2.8)	(\$3.0)	(\$3.1)

Impact on State Expenditures

Both GDOT and the Department of Revenue reported that they could implement the provisions of the bill using existing funds.

Sincerely,



Greg S. Griffin  
State Auditor



Kelly Farr, Director  
Office of Planning and Budget

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

HB 588 LC 43 2031TS proposes, in Section 7, to dedicate sales and use tax revenues from the sale of fuels to carriers regulated by the United States Surface Transportation Board (STB) to the Georgia Department of Transportation (GDOT) to be used exclusively in freight and logistic infrastructure projects. The STB is a federal agency that regulates various modes of surface transportation, but primarily freight rail. While the STB also regulates certain passenger rail activities, the estimates assume that fuel sold for these purposes are not covered by this dedication.

Georgia has 29 freight railroad companies operating in the state, including two large Class I freight railroad companies, CSX and Norfolk Southern (NS). According to the Association of American Railroads (AAR), low sulfur #2 diesel is the fuel used in freight locomotives. US Energy Information Agency (EIA) data from 2005 through 2019 (the latest year available) indicate that an average of 65 million gallons of distillate fuel oil is sold to railroads in Georgia per year, though the amount sold per year has been highly volatile between 1984 and 2019, with a sharp drop since 2014 that is not consistent with national trends or consumption trends for CSX and NS.

Data from STB on system-wide fuel purchases by CSX and NS show that fuel purchases by these two companies was 15.7 percent below 2019 in 2020, apparently due to the pandemic's disruption of the economy. More recent freight traffic data indicated that the freight railroad industry appears to be recovering in 2021 as traffic for January and February is up about 4.8 percent from the same period last year, pre-pandemic.

Longer-term fuel consumption by freight railroads has been declining slowly and the EIA projects that trend to continue, falling by about 0.5 percent annually, on average from 2021 to 2026. Thus, the estimates assume high and low cases for fuel sales in Georgia as follows:

- The low case assumes the post-2014 Georgia share of fuel sales is a permanent shift, resulting in estimated Georgia sales in 2021 of about 38.3 million gallons.
- The high case assumes a return to the pre-2015 Georgia share of fuel sales, resulting in estimated Georgia sales in 2021 of about 58.7 million gallons.
- In both cases, growth through 2026 is based on EIA's long-term reference-case forecast of fuel consumed by freight rail nationally.

Refiner prices for diesel also fell sharply in 2020, by 34 percent from 2019, but have recovered much of that ground and are currently projected by EIA to be up about 42 percent in 2021 (though still down almost 7 percent from 2019). The estimates assume an average refiner price of about \$1.82/gallon for 2022, based on the EIA's Short-Term Energy Outlook released March 9, rising to about \$2.20/gallon in 2026, based on the EIA's latest long-run reference case forecast from its Annual Energy Outlook 2021, released in February.

Per-gallon fuel costs for freight railroads are estimated based on total fuel expenditures and gallons purchased by CSX and NS, as reported to the STB. These data suggest unit fuel costs for these railroads are almost perfectly correlated with refiner prices (0.9991 correlation on annual data over the latest seven years) and average about 7 percent above the refiner price. Thus, unit fuel costs for Georgia freight railroads are assumed to be centered around a price 7 percent above the short-

and long-term forecasts from EIA for 2022-26. High and low case price projections are 5 percent above and below that central price projection to allow for uncertainty in EIA’s reference case price forecast.

Table 2 presents the projected fuel consumption and prices for the high and low cases for calendar years 2022-26. Fiscal year revenue estimates of the amounts to be dedicated to GDOT, thus reducing revenues for the general fund, are presented in Table 1.

**Table 2. Locomotive Fuel Sales and Price Estimates**

<i>(gallons in millions)</i>	<b>CY 2022</b>	<b>CY 2023</b>	<b>CY 2024</b>	<b>CY 2025</b>	<b>CY 2026</b>
<b>Gallons of Fuel</b>					
High	59.6	58.7	58.3	57.0	57.2
Low	38.9	38.3	38.0	37.1	37.3
<b>Per Gallon Price</b>					
High	\$2.04	\$2.06	\$2.21	\$2.34	\$2.48
Low	\$1.85	\$1.87	\$2.00	\$2.12	\$2.24