

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT June 2022

Summary

Commonwealth Transportation Fund (CTF) revenues declined by 15.0 percent in June, driven by the timing of receipts in motor fuels tax collections and the termination of the accelerated sales tax program.

Motor Fuels Tax

Motor fuels taxes fell by 15.5 percent in June due to a part of receipts being pushed into July.

The U.S. retail price for regular grade gasoline averaged \$4.56 per gallon (gal) in July, and the average retail diesel price was \$5.49/gal. We expect retail gasoline prices to average \$4.29/gal in the third quarter of 2022 (3Q22) and fall to an average of \$3.78/gal in 4Q22. Retail diesel prices in our forecast average \$5.02/gal in 3Q22 and \$4.39/gal in 4Q22.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections declined by 6.3 percent.

U.S. new-vehicle sales remained depressed in June. Sales have been below the expected market equilibrium for a year now because of drastic reductions in production and record-low levels of available inventory. Despite signs that the semiconductor supply crunch is easing, inventories have yet to jump. Additionally, new-vehicle incentives remain at all-time lows and transaction prices are at near-record highs. Given these signals, persistent below-equilibrium sales appear to be a supply-side phenomenon rather than any significant pullback in demand.

Concerns about demand are front and center as the Federal Reserve attempts to slow inflation by cooling economic growth through the blunt instrument of higher interest rates. Threading the needle of raising rates enough to stop spiraling prices, but not so much that the economy starts to see pain in the labor market leading to a recession, is a tall order. Rising interest rates do hit auto demand on the margins in a properly functioning market. However, it appears the current marginal buyer is more concerned about finding a vehicle than borrowing costs.

If declining demand were causing the current low levels of new-vehicle sales, we would expect inventories and incentives to be rising, and transaction prices to be falling. Through May, the numbers on each have not yet reversed course. According to the BEA, seasonally adjusted auto inventories are at their lowest point on record. The latest reading is 59% below May 2021, 77% below May 2020, and 85% below May 2019.

In response, dealerships and manufacturers have pulled back on almost all new-vehicle incentives. Total incentives for new vehicle purchases were at 2.5% of prices in May, the lowest level on record. Incentives are currently 260% below the long-run average. Without incentives and with rising input prices, new-vehicle transaction costs remain near all-time highs. Transaction prices are up 13% year over year and 20% over the past two years.

Despite a lack of reversal in these top-line numbers, there are signs we have passed the worst of the supply crunch. New-vehicle production in the U.S. remained strong for the second consecutive month. Production increased to an SAAR of 10.7 million units in May, the highest SAAR since January 2021. For context, the average monthly SAAR of production in the U.S. in the year prior to the pandemic was 10.9 million, but it was only 9.2 million in 2021 and the first quarter of 2022.

State Retail Sales Tax

The transportation portion of the state retail sales tax declined by 14.7 percent in June due to the end of the accelerated sales tax program.

Motor Vehicle Licenses

Motor vehicle registration fee collections fell by 26.2 percent in June.

Commonwealth of Virginia/Department of Accounts
Commonwealth Transportation Fund
Summary Statement of Selected Revenue Estimates & Collections
For the Fiscal Years 2021 and 2022
(Dollars in Thousands)

Revenue	FY 2022 Estimate	As a % of Total Fund	June			Year-To-Date			% Annual Growth Required By Estimate
			FY 2022	FY 2021	% Change	FY 2022	FY 2021	% Change	
Motor Fuel Taxes	\$1,352,600	17.91	\$113,651	\$134,457	(15.5)	\$1,287,990	\$1,027,881	25.3	31.6
Insurance Premiums Tax	180,657	2.39	0	0	-	180,657	181,382	(0.4)	(0.4)
Motor Vehicle Sales and Use Tax	1,214,700	16.08	109,182	116,576	(6.3)	1,249,031	1,144,968	9.1	6.1
State Sales and Use Tax	1,355,100	17.93	144,558	169,443	(14.7)	1,368,275	1,264,050	8.2	7.2
Motor Vehicle License Fees	234,800	3.11	19,965	27,063	(26.2)	231,062	241,718	(4.4)	(2.9)
Highway Use Fee	52,400	0.69	4,528	4,375	3.5	53,799	42,672	26.1	22.8
International Registration Plan	124,300	1.65	6,658	16,281	(59.1)	118,704	121,399	(2.2)	2.4
Recordation Tax	88,800	1.18	6,707	7,867	(14.7)	81,598	83,760	(2.6)	6.0
Interest Earnings	5,700	0.08	1	438	(99.8)	1,702	5,938	(71.3)	(4.0)
Misc. Taxes, Fees, and Revenues	17,200	0.23	1,171	1,747	(33.0)	21,260	19,787	7.4	(13.1)
Total State Taxes and Fees	<u>\$4,626,257</u>	<u>61.25</u>	<u>\$406,421</u>	<u>\$478,247</u>	<u>(15.0)</u>	<u>\$4,594,078</u>	<u>\$4,133,555</u>	<u>11.1</u>	<u>11.9</u>

Percentage is greater than or equal to 1,000%.

**Commonwealth of Virginia/Department of Accounts
Commonwealth Transportation Fund
Statement of Revenue Estimates & Collections
For the Fiscal Years 2021 and 2022
(Dollars in Thousands)**

Revenue	FY 2022 Estimate	As a % of Total Fund	June			Year-To-Date			% Annual Growth Required By Est
			FY 2022	FY 2021	% Change	FY 2022	FY 2021	% Change	
COMMONWEALTH TRANSPORTATION FUND									
Motor Vehicle Fuels Taxes (Includes Aviation & Road Taxes)	\$1,352,600	17.91	\$113,651	\$134,457	(15.5)	\$1,287,990	\$1,027,881	25.3	31.6
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,214,700	16.08	109,182	116,576	(6.3)	1,249,031	1,144,968	9.1	6.1
State Sales and Use Tax	1,355,100	17.93	144,558	169,443	(14.7)	1,368,275	1,264,050	8.2	7.2
Motor Vehicle License Fees	234,800	3.11	19,965	27,063	(26.2)	231,062	241,718	(4.4)	(2.9)
Highway Use Fee	52,400	0.69	4,528	4,375	3.5	53,799	42,672	26.1	22.8
International Registration Plan	124,300	1.65	6,658	16,281	(59.1)	118,704	121,399	(2.2)	2.4
Insurance Premiums Tax	180,657	2.39	0	0	-	180,657	181,382	(0.4)	(0.4)
Recordation Tax	88,800	1.18	6,707	7,867	(14.7)	81,598	83,760	(2.6)	6.0
Total Commonwealth Transportation Fund	\$4,603,357	60.94	\$405,249	\$476,062	(14.9)	\$4,571,116	\$4,107,830	11.3	12.1
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$17,200	0.23	\$1,171	\$1,747	(33.0)	\$21,260	\$19,787	7.4	(13.1)
Other Miscellaneous Revenues	405,487	5.37	6,909	2,734	152.7	426,596	327,799	30.1	23.7
Federal Grants and Contracts	0	0.00	1,562	539	189.8	14,380	15,924	(9.7)	(100.0)
Transfer (to) / from Transportation Trust Fund	(57,514)	(0.76)	(32,513)	107,134	(130.3)	(234,482)	157,134	(249.2)	(136.6)
Total Highway Maintenance and Operating Fund	\$365,173	4.84	(\$22,871)	\$112,154	(120.4)	\$227,754	\$520,644	(56.3)	(29.9)
TRANSPORTATION TRUST FUND									
Interest Earnings	\$5,700	0.08	\$1	\$438	(99.8)	\$1,702	\$5,938	(71.3)	(4.0)
Federal Grants and Contracts	1,279,944	16.94	54,796	38,125	43.7	1,286,975	988,744	30.2	29.5
Receipts from Cities/Counties	833,369	11.03	52,752	104,138	(49.3)	672,344	940,407	(28.5)	(11.4)
Toll Revenues	70,354	0.93	2,852	2,067	38.0	35,632	25,929	37.4	171.3
Miscellaneous Revenues	338,119	4.48	27,009	43,227	(37.5)	406,391	271,845	49.5	24.4
Transfer (to) / from Highway Maintenance and Operating Fund	57,514	0.76	32,513	(107,134)	130.3	234,482	(157,134)	249.2	136.6
Total Transportation Trust Fund	\$2,585,000	34.22	\$169,923	\$80,861	110.1	\$2,637,526	\$2,075,729	27.1	24.5
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$7,553,530	100.00	\$552,301	\$669,077	(17.5)	\$7,436,396	\$6,704,203	10.9	12.7

Percentage is greater than or equal to 1,000%.