

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT May 2024

Summary

Commonwealth Transportation Fund (CTF) revenues grew by 7.9 percent in May, driven by motor fuels and motor vehicle sales tax collections.

Motor Fuels Tax

Motor fuels taxes increased by 13.6 percent in May.

In our May outlook, we had assumed OPEC+ would begin to relax some voluntary production cuts beginning in the third quarter of 2024 (3Q24). In line with the group's recent announcement, we now expect OPEC+ will begin relaxing voluntary cuts in 4Q24. As a result, we expect that the extension of voluntary OPEC+ production cuts will cause global oil inventories to continue falling through 1Q25. Although we expect crude oil prices to rise from early June levels, lower-than-expected Brent prices in May mean our forecast for 2024 is \$84/b, 4% lower than our May forecast.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections grew by 12.7 percent.

Dealerships are actively contributing to maintaining sales momentum. With an increased number of vehicles on their lots compared with previous years, pricing vehicles above their MSRP is no longer a viable strategy for attracting customers. Consequently, fewer vehicles are being sold above their MSRP, leading to more moderate profit margins for dealerships. Additionally, dealerships are ramping up vehicle incentives to entice customers to make new-vehicle purchases. Such incentives were rare during the pandemic because of the extremely low vehicle supply, which minimized the need for dealerships to offer discounts. As inventory levels continue to rise, dealerships are expected to keep offering discounts on new vehicles in the near term, further contributing to the reduction of average transaction prices.

As the U.S. auto industry progresses toward stabilization, it continues to navigate significant hurdles. Inflation remains persistently above the Federal Reserve's 2% target, with recent CPI figures suggesting an acceleration in price pressures. This enduring inflation has postponed the anticipated cuts to interest rates, now projected for the latter half of this year. Reducing interest rates is vital for stabilizing vehicle sales at levels slightly above 17 million SAAR units. Elevated interest rates are constraining new-vehicle sales by increasing the cost of ownership for consumers. A reduction in interest rates is a

key element of our projection for continued growth in new-vehicle sales over the rest of the year. Additionally, consumers face the added challenge of rising insurance rates when purchasing a new vehicle. The decision to buy a new vehicle involves considerations beyond just the high lending costs and monthly payments; potential buyers must also account for the insurance costs associated with insuring new vehicles.

For 2024, our baseline projection for new-vehicle sales stands at 16 million units SAAR. This assumes ongoing declines in new-vehicle prices, reductions in auto segment interest rates, and the maintenance of a strong labor market, with unemployment staying below 4%. However, these assumptions introduce downside risks to our forecast. While the labor market remains robust, the prospect of reducing rates sufficiently to significantly affect auto lending this year seems less likely. Furthermore, vehicle prices have not decreased as much as expected over the past 12 months.

State Retail Sales Tax

The transportation portion of the state retail sales tax increased by 3.7 percent in May.

Motor Vehicle Licenses

Motor vehicle registration fee collections fell by 10.4 percent in May.

Commonwealth of Virginia/Department of Accounts
Commonwealth Transportation Fund
Summary Statement of Selected Revenue Estimates & Collections
For the Fiscal Years 2023 and 2024
(Dollars in Thousands)

Revenue	FY 2024 Estimate	As a % of Total Fund	May			Year-To-Date			% Annual Growth Required By Estimate
			FY 2024	FY 2023	% Change	FY 2024	FY 2023	% Change	
Motor Fuel Taxes	\$1,538,200	19.51	\$136,469	\$120,144	13.6	\$1,380,261	\$1,325,558	4.1	4.5
Insurance Premiums Tax	217,791	2.76	0	0	-	217,791	202,496	7.6	7.6
Motor Vehicle Sales and Use Tax	1,234,400	15.66	122,073	108,300	12.7	1,169,420	1,143,563	2.3	(2.2)
State Sales and Use Tax	1,372,100	17.40	115,416	111,336	3.7	1,256,103	1,297,580	(3.2)	(3.1)
Motor Vehicle License Fees	225,600	2.86	19,236	21,480	(10.4)	201,798	182,065	10.8	14.8
Highway Use Fee	61,800	0.78	7,012	5,742	22.1	65,087	53,097	22.6	5.8
International Registration Plan	114,100	1.45	18,961	21,430	(11.5)	109,961	110,740	(0.7)	(0.9)
Recordation Tax	52,500	0.67	5,420	4,886	10.9	45,883	47,561	(3.5)	(0.3)
Interest Earnings	14,200	0.18	108	29	272.4	37,858	12,418	204.9	(33.0)
Misc. Taxes, Fees, and Revenues	18,600	0.24	1,866	1,982	(5.9)	18,508	18,232	1.5	(6.0)
Total State Taxes and Fees	<u>\$4,849,291</u>	<u>61.51</u>	<u>\$426,561</u>	<u>\$395,329</u>	<u>7.9</u>	<u>\$4,502,670</u>	<u>\$4,393,310</u>	<u>2.5</u>	<u>0.7</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 2023 and 2024
(Dollars in Thousands)**

Revenue	FY 2024 Estimate	As a % of Total Fund	May			Year-To-Date			% Annual Growth Required By Est
			FY 2024	FY 2023	% Change	FY 2024	FY 2023	% Change	
COMMONWEALTH TRANSPORTATION FUND									
Motor Vehicle Fuels Taxes (Includes Aviation & Road Taxes)	\$1,538,200	19.51	\$136,469	\$120,144	13.6	\$1,380,261	\$1,325,558	4.1	4.5
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,234,400	15.66	122,073	108,300	12.7	1,169,420	1,143,563	2.3	(2.2)
State Sales and Use Tax	1,372,100	17.40	115,416	111,336	3.7	1,256,103	1,297,580	(3.2)	(3.1)
Motor Vehicle License Fees	225,600	2.86	19,236	21,480	(10.4)	201,798	182,065	10.8	14.8
Highway Use Fee	61,800	0.78	7,012	5,742	22.1	65,087	53,097	22.6	5.8
International Registration Plan	114,100	1.45	18,961	21,430	(11.5)	109,961	110,740	(0.7)	(0.9)
Insurance Premiums Tax	217,791	2.76	0	0	-	217,791	202,496	7.6	7.6
Recordation Tax	52,500	0.67	5,420	4,886	10.9	45,883	47,561	(3.5)	(0.3)
Total Commonwealth Transportation Fund	\$4,816,491	61.09	\$424,587	\$393,318	8.0	\$4,446,304	\$4,362,660	1.9	0.8
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$18,600	0.24	\$1,866	\$1,982	(5.9)	\$18,508	\$18,232	1.5	(6.0)
Other Miscellaneous Revenues	271,103	3.44	7,491	3,609	107.6	366,431	572,761	(36.0)	(53.2)
Federal Grants and Contracts	0	0.00	3,465	2,448	41.5	37,110	22,957	61.7	(100.0)
Transfer (to) / from Transportation Trust Fund	363,025	4.60	0	0	-	250,399	45,000	456.4	419.0
Total Highway Maintenance and Operating Fund	\$652,728	8.28	\$12,822	\$8,039	59.5	\$672,448	\$658,950	2.0	(6.0)
TRANSPORTATION TRUST FUND									
Interest Earnings	\$14,200	0.18	\$108	\$29	272.4	\$37,858	\$12,418	204.9	(33.0)
Federal Grants and Contracts	1,577,002	20.00	75,659	86,330	(12.4)	1,202,570	1,405,962	(14.5)	6.0
Receipts from Cities/Counties	784,754	9.95	47,011	63,453	(25.9)	577,846	392,955	47.1	69.0
Toll Revenues	82,294	1.05	5,733	4,350	31.8	62,639	53,543	17.0	40.4
Miscellaneous Revenues	319,225	4.05	25,669	37,191	(31.0)	234,129	238,247	(1.7)	19.0
Transfer (to) / from Highway Maintenance and Operating Fund	(363,025)	(4.60)	0	0	-	(250,399)	(45,000)	(456.4)	(419.0)
Total Transportation Trust Fund	\$2,414,450	30.63	\$154,180	\$191,353	(19.4)	\$1,864,643	\$2,058,125	(9.4)	8.2
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$7,883,669	100.00	\$591,589	\$592,710	(0.2)	\$6,983,395	\$7,079,735	(1.4)	2.4

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