

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT October 2024

Summary

Commonwealth Transportation Fund (CTF) revenues grew by 6.2 percent in October, driven by strong growth in motor fuels and motor vehicle sales tax collections.

Motor Fuels Tax

Motor fuels taxes increased by 3.0 percent in October.

Ongoing geopolitical risks and withdrawals from global oil inventories stemming from OPEC+ production cuts will place upward pressure on oil prices over the next few months, with the Brent crude oil price averaging \$78 per barrel (b) in the first quarter of 2025 (1Q25). However, it is expected that global oil production growth means inventories will begin building in 2Q25, reducing crude oil prices through the end of the year. The Brent price should fall to an average of \$74/b in the second half of 2025.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections increased by 3.4 percent in October.

Seasonally adjusted new-vehicle sales have stalled. Despite posting higher month-over-month results, the seasonally adjusted annualized rate remains only 0.5% higher than last year despite higher inventories and improving affordability. Consumers seem to be holding out for better deals, while lenders are content to remain on the sidelines.

More than 80% of all retail new-vehicle sales in the U.S. are financed, and auto lenders are experiencing some challenges. The 12-month moving average of total delinquent balances has surged significantly over the past few years, reaching its highest level since 2010 in September.

The sharp rise in delinquencies has prompted lenders to tighten credit standards, resulting in a 4% decrease in the total number of outstanding loans over the past three and a half years. This trend persists despite an estimated population growth of more than 3% among individuals age 25 and older during that period.

The decline in lending has been offset by consumers who are reluctant to take out new car loans. Interest rates on auto loans have stayed at their highest level in over two decades for the past year. The Federal Reserve reports that consumer demand for auto loans has deteriorated over the last nine consecutive quarters.

This situation is somewhat intentional. The Fed pledged to maintain target fed funds rates that were "higher for longer" to combat the worst inflation in more than 40 years. High interest rates are designed to temper economic activity by reducing aggregate demand and slowing down the rate of price increases, that is, inflation. The auto market is no exception; given its relatively high exposure to interest rates as a big-ticket item, it is particularly affected by the interest rate environment. Consequently, new-vehicle sales have stayed at what we believe is the neutral rate of just above 17 million per year.

Recently, the tides have shifted in this engineered slowdown. Earlier this month, the Fed announced a rate cut of 50 basis points to the target rate. IT has also indicated its plans for additional rate cuts over the next few years as inflation forecasts have aligned with targets. This will benefit the auto lending market from both supply and demand perspectives as the cost of funds improves for both lenders and borrowers.

Enhanced affordability for borrowers has also resulted from consistently declining new-vehicle prices over the past year and vehicle purchase incentives that have gradually re-entered the market. The Cox Automotive/Moody's Analytic Vehicle Affordability Index shows that new vehicle affordability has improved by 13% over the past 20 months. This is expected to decrease further as auto interest rates follow those of the Fed's target rate, albeit with a delay.

Given this backdrop and the U.S. labor market's continued job creation, which maintains unemployment rate stability, new-vehicle sales are projected to steadily increase through the end of 2024 and 2025. New-vehicle sales are anticipated to surpass the 17 million SAAR threshold in the first quarter of 2026 when the fed funds rate is expected to conclude its easing cycle.

State Retail Sales Tax

The transportation portion of the state retail sales tax fell by 0.4 percent in October.

Motor Vehicle Licenses

Motor vehicle registration fee collections were up 15.0 percent in October.

Commonwealth of Virginia/Department of Accounts
Commonwealth Transportation Fund
Summary Statement of Selected Revenue Estimates & Collections
For the Fiscal Years 2024 and 2025
(Dollars in Thousands)

Revenue	FY 2025 Estimate	As a % of Total Fund	October			Year-To-Date			% Annual Growth Required By Estimate
			FY 2025	FY 2024	% Change	FY 2025	FY 2024	% Change	
Motor Fuel Taxes	\$1,591,400	19.14	\$125,092	\$121,399	3.0	\$538,602	\$492,969	9.3	6.2
Insurance Premiums Tax	228,661	2.75	17,816	8,911	99.9	194,458	178,557	8.9	5.0
Motor Vehicle Sales and Use Tax	1,248,400	15.02	112,650	108,921	3.4	469,835	448,416	4.8	(0.6)
State Sales and Use Tax	1,392,200	16.74	116,787	117,223	(0.4)	466,929	464,352	0.6	1.1
Motor Vehicle License Fees	219,500	2.64	21,987	19,125	15.0	82,276	76,537	7.5	3.2
Highway Use Fee	65,400	0.79	8,312	6,157	35.0	29,331	23,330	25.7	(7.9)
International Registration Plan	119,600	1.44	7,439	6,923	7.5	36,470	34,380	6.1	5.1
Recordation Tax	55,900	0.67	5,152	3,823	34.8	19,630	16,762	17.1	9.9
Interest Earnings	14,200	0.17	13,718	11,796	16.3	14,006	11,906	17.6	(73.8)
Misc. Taxes, Fees, and Revenues	18,600	0.22	2,174	1,520	43.0	7,699	6,528	17.9	(13.8)
Total State Taxes and Fees	<u>\$4,953,861</u>	<u>59.58</u>	<u>\$431,127</u>	<u>\$405,798</u>	<u>6.2</u>	<u>\$1,859,236</u>	<u>\$1,753,737</u>	<u>6.0</u>	<u>1.7</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 2024 and 2025
(Dollars in Thousands)**

Revenue	FY 2025 Estimate	As a % of Total Fund	October			Year-To-Date			% Annual Growth Required By Est
			FY 2025	FY 2024	% Change	FY 2025	FY 2024	% Change	
COMMONWEALTH TRANSPORTATION FUND									
Motor Vehicle Fuels Taxes (Includes Aviation & Road Taxes)	\$1,591,400	19.14	\$125,092	\$121,399	3.0	\$538,602	\$492,969	9.3	6.2
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,248,400	15.02	112,650	108,921	3.4	469,835	448,416	4.8	(0.6)
State Sales and Use Tax	1,392,200	16.74	116,787	117,223	(0.4)	466,929	464,352	0.6	1.1
Motor Vehicle License Fees	219,500	2.64	21,987	19,125	15.0	82,276	76,537	7.5	3.2
Highway Use Fee	65,400	0.79	8,312	6,157	35.0	29,331	23,330	25.7	(7.9)
International Registration Plan	119,600	1.44	7,439	6,923	7.5	36,470	34,380	6.1	5.1
Insurance Premiums Tax	228,661	2.75	17,816	8,911	99.9	194,458	178,557	8.9	5.0
Recordation Tax	55,900	0.67	5,152	3,823	34.8	19,630	16,762	17.1	9.9
Total Commonwealth Transportation Fund	\$4,921,061	59.19	\$415,235	\$392,482	5.8	\$1,837,531	\$1,735,303	5.9	2.6
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$18,600	0.22	\$2,174	\$1,520	43.0	\$7,699	\$6,528	17.9	(13.8)
Other Miscellaneous Revenues	30,132	0.37	62,114	65,841	(5.7)	302,351	328,309	(7.9)	(92.0)
Federal Grants and Contracts	0	0.00	6,868	3,888	76.6	19,211	12,066	59.2	(100.0)
Transfer (to) / from Transportation Trust Fund	509,882	6.13	0	0	-	127,000	91,000	39.6	49.8
Total Highway Maintenance and Operating Fund	\$558,614	6.72	\$71,156	\$71,249	(0.1)	\$456,261	\$437,903	4.2	(28.3)
TRANSPORTATION TRUST FUND									
Interest Earnings	\$14,200	0.17	\$13,718	\$11,796	16.3	\$14,006	\$11,906	17.6	(73.8)
Federal Grants and Contracts	1,743,227	20.97	176,336	126,037	39.9	732,376	725,544	0.9	38.9
Receipts from Cities/Counties	1,466,358	17.64	36,167	45,781	(21.0)	169,229	196,726	(14.0)	126.7
Toll Revenues	116,696	1.39	5,269	11,385	(53.7)	18,715	22,486	(16.8)	73.3
Miscellaneous Revenues	4,058	0.05	51,043	14,036	263.7	205,377	167,605	22.5	(98.5)
Transfer (to) / from Highway Maintenance and Operating Fund	(509,882)	(6.13)	0	0	-	(127,000)	(91,000)	(39.6)	(49.8)
Total Transportation Trust Fund	\$2,834,657	34.09	\$282,533	\$209,035	35.2	\$1,012,703	\$1,033,267	(2.0)	44.5
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$8,314,332	100.00	\$768,924	\$672,766	14.3	\$3,306,495	\$3,206,473	3.1	10.3

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