

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT July 2024

Summary

Commonwealth Transportation Fund (CTF) revenues grew by 21.5 percent in July, driven by strong growth in motor fuels and motor vehicle sales tax collections.

Motor Fuels Tax

Motor fuels taxes increased by 35.3 percent in July.

Although crude oil prices have fallen recently, we continue to expect crude oil prices will rise in the second half of 2024 (2H24). The Brent crude oil spot price ended July at \$81 per barrel (b), compared with an average for the month of \$85/b. We expect the Brent price will return to between \$85/b and \$90/b by the end of the year. Rising crude oil prices in our forecast are the result of falling global oil inventories. We estimate global oil inventories decreased by 0.4 million barrels per day (b/d) in 1H24 and will fall by 0.8 million b/d in 2H24. Inventory withdrawals stem in part from ongoing OPEC+ production cuts. Although we expect crude oil prices to rise in the coming months, our forecast for the annual average Brent crude oil price in 2025 is down from a forecast of \$88/b in our July STEO, owing mostly to reduced oil consumption.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections grew by 17.6 percent in July.

As anticipated, U.S. light-vehicle sales rebounded in July. This adjustment comes after a pair of unusual months for the U.S. auto industry within this calendar year. Initially, June's sales figures were affected by a cyberattack on CDK Global, which disrupted transactions at dealerships. Consequently, July's data encapsulates the sales deferred from June. Over the first seven months of the year, new light-vehicle sales have averaged 15.5 million SAAR, slightly surpassing last year's figure by 0.1 million SAAR but still falling significantly short of the pre-pandemic levels observed in 2019.

Consumer demand for new vehicles remains intact. Despite high vehicle prices, a significant portion of consumers have not been dissuaded from making purchases. This resilience can be attributed to several factors, including a relatively healthy labor market characterized by a low unemployment rate. Although the labor market shows signs of cooling, employers have primarily responded by reducing job openings rather than implementing widespread layoffs. Additionally, the easing of inflation and the resultant

increase in real wages have supported new-vehicle sales in the U.S. Other contributing factors include the accumulation of excess savings in the past few years and the essential role vehicles play in some consumers' lives.

However, not all consumers have been quick to purchase a new vehicle under the current circumstances. Elevated interest rates have increased monthly auto payments, limiting some consumers' ability to afford new vehicles. Although not seasonally adjusted average transaction prices are trending downward, they remain high compared to pre-pandemic levels. This lack of purchasing power among some consumers has kept total U.S. light-vehicle sales from returning to the assumed market equilibrium of 17 million SAAR. Since last spring, light-vehicle sales have stabilized between 15 million and 16 million SAAR. With interest rates unlikely to drop rapidly and transaction prices slow to revert to historical trends, affordability challenges persist for consumers.

To maintain consumer demand, dealerships are enhancing vehicle affordability. Discounts on new vehicles are significantly higher today compared to the past few years when severe supply shortages left little reason for dealerships to offer such incentives. However, the rapid increase in inventory levels, driven by normalized U.S. auto production, has diminished the seller's advantage, creating a more balanced market. Consequently, dealership profit margins have declined from their historic highs.

For the second half of 2024, our baseline projection anticipates U.S. light-vehicle sales to increase toward 16.4 million SAAR. For the full year, we expect sales to reach 15.9 million SAAR. We do not foresee U.S. vehicle sales achieving the assumed market equilibrium of 17 million SAAR until the latter half of 2025. This baseline forecast is predicated on a relatively stable U.S. labor market, declining interest rates, and moderating inflation. A reduction in interest rates is crucial for our projection of continued growth in new-vehicle sales for the rest of the year. However, these assumptions carry inherent downside risks. While the labor market remains generally stable, the likelihood of reducing interest rates sufficiently to notably influence auto lending this year appears slim. Additionally, vehicle prices have not decreased as significantly as anticipated during the past 12 months. Furthermore, a potential economic slowdown in the U.S., possibly triggered by a policy misstep by the Federal Reserve, could present new challenges to the auto industry by curtailing consumer spending on new vehicles.

State Retail Sales Tax

The transportation portion of the state retail sales tax increased by 4.0 percent in July.

Motor Vehicle Licenses

Motor vehicle registration fee collections were up 28.7 percent in July.

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	July			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	\$143,916	\$106,335	35.3	\$143,916	\$106,335	35.3	6.2
Insurance Premiums Tax	228,661	2.75	26,296	14,651	79.5	26,296	14,651	79.5	5.0
Motor Vehicle Sales and Use Tax	1,248,400	15.02	130,583	111,050	17.6	130,583	111,050	17.6	(0.6)
State Sales and Use Tax	1,392,200	16.74	121,938	117,275	4.0	121,938	117,275	4.0	1.1
Motor Vehicle License Fees	219,500	2.64	28,206	21,924	28.7	28,206	21,924	28.7	3.2
Highway Use Fee	65,400	0.79	8,528	5,881	45.0	8,528	5,881	45.0	(7.9)
International Registration Plan	119,600	1.44	16,225	14,274	13.7	16,225	14,274	13.7	5.1
Recordation Tax	55,900	0.67	5,210	4,373	19.1	5,210	4,373	19.1	9.9
Interest Earnings	14,200	0.17	55	0	-	55	0	-	(73.8)
Misc. Taxes, Fees, and Revenues	18,600	0.22	1,884	1,486	26.8	1,884	1,486	26.8	(13.8)
Total State Taxes and Fees	<u>\$4,953,861</u>	<u>59.58</u>	<u>\$482,841</u>	<u>\$397,249</u>	<u>21.5</u>	<u>\$482,841</u>	<u>\$397,249</u>	<u>21.5</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	July			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	\$143,916	\$106,335	35.3	\$143,916	\$106,335	35.3	6.2
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,248,400	15.02	130,583	111,050	17.6	130,583	111,050	17.6	(0.6)
State Sales and Use Tax	1,392,200	16.74	121,938	117,275	4.0	121,938	117,275	4.0	1.1
Motor Vehicle License Fees	219,500	2.64	28,206	21,924	28.7	28,206	21,924	28.7	3.2
Highway Use Fee	65,400	0.79	8,528	5,881	45.0	8,528	5,881	45.0	(7.9)
International Registration Plan	119,600	1.44	16,225	14,274	13.7	16,225	14,274	13.7	5.1
Insurance Premiums Tax	228,661	2.75	26,296	14,651	79.5	26,296	14,651	79.5	5.0
Recordation Tax	55,900	0.67	5,210	4,373	19.1	5,210	4,373	19.1	9.9
Total Commonwealth Transportation Fund	\$4,921,061	59.19	\$480,902	\$395,763	21.5	\$480,902	\$395,763	21.5	2.6
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$18,600	0.22	\$1,884	\$1,486	26.8	\$1,884	\$1,486	26.8	(13.8)
Other Miscellaneous Revenues	30,132	0.37	2,291	108,880	(97.9)	2,291	108,880	(97.9)	(92.0)
Federal Grants and Contracts	0	0.00	4,344	2,629	65.2	4,344	2,629	65.2	(100.0)
Transfer (to) / from Transportation Trust Fund	509,882	6.13	0	0	-	0	0	-	49.8
Total Highway Maintenance and Operating Fund	\$558,614	6.72	\$8,519	\$112,995	(92.5)	\$8,519	\$112,995	(92.5)	(28.3)
TRANSPORTATION TRUST FUND									
Interest Earnings	\$14,200	0.17	\$55	\$0	-	\$55	\$0	-	(73.8)
Federal Grants and Contracts	1,743,227	20.97	67,622	171,373	(60.5)	67,622	171,373	(60.5)	38.9
Receipts from Cities/Counties	1,466,358	17.64	32,239	52,524	(38.6)	32,239	52,524	(38.6)	126.7
Toll Revenues	116,696	1.39	4,270	3,152	35.5	4,270	3,152	35.5	73.3
Miscellaneous Revenues	4,058	0.05	8,625	17,052	(49.4)	8,625	17,052	(49.4)	(98.5)
Transfer (to) / from Highway Maintenance and Operating Fund	(509,882)	(6.13)	0	0	-	0	0	-	(49.8)
Total Transportation Trust Fund	\$2,834,657	34.09	\$112,811	\$244,101	(53.8)	\$112,811	\$244,101	(53.8)	44.5
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$8,314,332	100.00	\$602,232	\$752,859	(20.0)	\$602,232	\$752,859	(20.0)	10.3

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