

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT September 2024

Summary

Commonwealth Transportation Fund (CTF) revenues grew by 2.5 percent in September, driven by strong growth in motor fuels tax collections.

Motor Fuels Tax

Motor fuels taxes increased by 11.5 percent in September.

The retail diesel price is expected to average about \$3.50/gal next year, down by 5% from last month's forecast. The U.S. average retail gasoline price is estimated to average \$3.20/gal next year, down 2% from last month.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections increased by 6.0 percent in September.

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 aged 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, through the Senior Loan Officer Survey, 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 3.7 percent in September.

Motor Vehicle Licenses

Motor vehicle registration fee collections were up 12.5 percent in September.

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	September			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	\$153,956	\$138,090	11.5	\$413,510	\$371,571	11.3	6.2
Insurance Premiums Tax	228,661	2.75	131,903	143,131	(7.8)	176,642	169,647	4.1	5.0
Motor Vehicle Sales and Use Tax	1,248,400	15.02	113,301	106,928	6.0	357,185	339,495	5.2	(0.6)
State Sales and Use Tax	1,392,200	16.74	112,434	116,794	(3.7)	350,141	347,128	0.9	1.1
Motor Vehicle License Fees	219,500	2.64	17,502	15,552	12.5	60,289	57,412	5.0	3.2
Highway Use Fee	65,400	0.79	6,593	5,046	30.7	21,018	17,172	22.4	(7.9)
International Registration Plan	119,600	1.44	9,889	6,883	43.7	29,031	27,458	5.7	5.1
Recordation Tax	55,900	0.67	4,266	3,821	11.6	14,477	12,939	11.9	9.9
Interest Earnings	14,200	0.17	119	71	67.6	288	110	161.8	(73.8)
Misc. Taxes, Fees, and Revenues	18,600	0.22	1,564	1,814	(13.8)	5,525	5,008	10.3	(13.8)
Total State Taxes and Fees	<u>\$4,953,861</u>	<u>59.58</u>	<u>\$551,527</u>	<u>\$538,130</u>	<u>2.5</u>	<u>\$1,428,106</u>	<u>\$1,347,940</u>	<u>5.9</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	September			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	\$153,956	\$138,090	11.5	\$413,510	\$371,571	11.3	6.2
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,248,400	15.02	113,301	106,928	6.0	357,185	339,495	5.2	(0.6)
State Sales and Use Tax	1,392,200	16.74	112,434	116,794	(3.7)	350,141	347,128	0.9	1.1
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International Registration Plan	119,600	1.44	9,889	6,883	43.7	29,031	27,458	5.7	5.1
Insurance Premiums Tax	228,661	2.75	131,903	143,131	(7.8)	176,642	169,647	4.1	5.0
Recordation Tax	55,900	0.67	4,266	3,821	11.6	14,477	12,939	11.9	9.9
Total Commonwealth Transportation Fund	\$4,921,061	59.19	\$549,844	\$536,245	2.5	\$1,422,293	\$1,342,822	5.9	2.6
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$18,600	0.22	\$1,564	\$1,814	(13.8)	\$5,525	\$5,008	10.3	(13.8)
Other Miscellaneous Revenues	30,132	0.37	120,674	55,544	117.3	240,237	262,469	(8.5)	(92.0)
Federal Grants and Contracts	0	0.00	1,867	1,207	54.7	12,343	8,179	50.9	(100.0)
Transfer (to) / from Transportation Trust Fund	509,882	6.13	127,000	91,000	39.6	127,000	91,000	39.6	49.8
Total Highway Maintenance and Operating Fund	\$558,614	6.72	\$251,105	\$149,565	67.9	\$385,105	\$366,656	5.0	(28.3)
TRANSPORTATION TRUST FUND									
Interest Earnings	\$14,200	0.17	\$119	\$71	67.6	\$288	\$110	161.8	(73.8)
Federal Grants and Contracts	1,743,227	20.97	330,435	197,989	66.9	556,040	599,507	(7.3)	38.9
Receipts from Cities/Counties	1,466,358	17.64	42,099	39,804	5.8	133,062	150,945	(11.8)	126.7
Toll Revenues	116,696	1.39	4,669	4,207	11.0	13,446	11,101	21.1	73.3
Miscellaneous Revenues	4,058	0.05	109,361	63,397	72.5	154,335	153,569	0.5	(98.5)
Transfer (to) / from Highway Maintenance and Operating Fund	(509,882)	(6.13)	(127,000)	(91,000)	(39.6)	(127,000)	(91,000)	(39.6)	(49.8)
Total Transportation Trust Fund	\$2,834,657	34.09	\$359,683	\$214,468	67.7	\$730,171	\$824,232	(11.4)	44.5
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$8,314,332	100.00	\$1,160,632	\$900,278	28.9	\$2,537,569	\$2,533,710	0.2	10.3

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