

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT January 2023

Summary

Commonwealth Transportation Fund (CTF) revenues increased by 6.5 percent in January

Motor Fuels Tax

Motor fuels taxes increased by 5.2 percent in January.

Recent developments are consistent with our more sanguine baseline view for the U.S., and particularly important are lower oil prices. The price of West Texas Intermediate crude has dropped to near \$80 per barrel and is back near where it was prior to the Russian invasion of Ukraine. This is down from a peak of more than \$120 per barrel in June, and not much higher than our estimate of the equilibrium price of oil— the price of producing and transporting the last barrel of oil to the global markets.

Gasoline prices were quickly falling in response. The cost of a gallon of regular unleaded was closing in on \$3, down from this summer's record high of \$5. Weighing on oil prices are the still-weak Chinese economy, which is crimping the demand for oil, and the so-far successful implementation of the European Union's sanctions on Russian oil and a price cap on Russian oil imposed by Western governments. Although oil prices are not likely to remain that low for long, since the Chinese economy will revive and Russia may yet respond more forcefully to the sanctions, the global oil market is adjusting admirably to the severe disruption caused by the Russian invasion.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections increased by 8.7 percent.

As the supply of new vehicles trails current demand, average transaction prices continue to touch new heights, but at a slower pace than before. In December, not seasonally adjusted average transaction prices rose by 4.9 percent year over year. This was the fourth consecutive month of single-digit growth in average transaction prices following more than a year of double-digit growth. However, it must be noted that the current imbalance between supply and demand is not the only reason why not seasonally adjusted average transaction prices continue to rise. Higher vehicle financing rates, amid monetary tightening by the Federal Reserve, are also adding considerable upward pressure on average transaction prices as consumers can only secure auto loans with

higher interest rates in the current environment. In December, monthly car payments increased by 13 percent year over year. For context, monthly vehicle payments in 2019 averaged a growth rate of 4 percent. This is likely to push prospective low-income buyers out of the market who will have no choice but to wait until average transaction prices begin to stabilize or decline. If interest rates were low and the current supply of new vehicles was similar to what it is now, growth in average transaction prices would have likely slowed a lot more or had even partly reversed.

While people need cars despite record-high transaction prices, demand for new vehicles is nonetheless cooling. This is affecting profit per unit at dealerships as well, though they remain at historically high levels. When the production and inventory of new vehicles were considerably below demand, dealerships were raking in record profits per unit sold as vehicles were regularly being sold above MSRP. But steadily improving inventories, coupled with cooling consumer demand, are pushing dealerships to sell fewer vehicles above the MSRP. In addition, dealerships are also offering higher incentives to attract new customers, and while total incentives per vehicle are considerably below the pre-pandemic levels, there has been a consistent upward trend in vehicle discounts beginning in the fall of 2022.

To sum up, our forecast assumes improving production levels throughout the current year. As supply chains heal and automakers around the world continue to increase production, there will be a better equilibrium between supply of new vehicles and consumer demand. This will help contain the growth in average transaction prices in the near future. On the other hand, monetary tightening by Fed will make it increasingly difficult to finance new vehicles, thus curbing consumer demand and allowing manufacturers to catch up with demand faster. The baseline forecast also assumes a relatively healthy U.S. labor market and moderating inflation, which should lead to a SAAR of 15.1 million vehicles in 2023. Should the process of monetary tightening lead to a crash landing of the U.S. economy, sales of new vehicles will take a big hit. This may push automakers to reduce production levels amid tanking consumer demand, thereby reversing the important gains made by the auto industry from 2022.

State Retail Sales Tax

The transportation portion of the state retail sales tax increased by 8.9 percent in January.

Motor Vehicle Licenses

Motor vehicle registration fee collections increased by 11.6 percent in January.

Commonwealth of Virginia/Department of Accounts
Commonwealth Transportation Fund
Summary Statement of Selected Revenue Estimates & Collections
For the Fiscal Years 2022 and 2023
(Dollars in Thousands)

Revenue	FY 2023 Estimate	As a % of Total Fund	January			Year-To-Date			% Annual Growth Required By Estimate
			FY 2023	FY 2022	% Change	FY 2023	FY 2022	% Change	
Motor Fuel Taxes	\$1,481,100	17.45	\$133,067	\$126,438	5.2	\$859,995	\$743,668	15.6	15.0
Insurance Premiums Tax	202,496	2.39	9	0	-	202,496	180,657	12.1	12.1
Motor Vehicle Sales and Use Tax	1,194,100	14.07	104,879	96,442	8.7	732,394	730,533	0.3	(4.4)
State Sales and Use Tax	1,433,100	16.88	140,944	129,454	8.9	872,253	774,038	12.7	4.7
Motor Vehicle License Fees	200,700	2.36	22,341	20,011	11.6	117,746	128,998	(8.7)	(13.1)
Highway Use Fee	61,300	0.72	5,608	4,330	29.5	35,190	30,939	13.7	13.9
International Registration Plan	119,200	1.40	11,675	14,875	(21.5)	58,187	61,856	(5.9)	0.4
Recordation Tax	61,700	0.72	2,851	6,542	(56.4)	31,975	49,782	(35.8)	(24.4)
Interest Earnings	3,200	0.04	3,697	661	459.3	5,539	1,420	290.1	88.0
Misc. Taxes, Fees, and Revenues	17,600	0.21	1,299	1,433	(9.4)	11,301	11,662	(3.1)	(17.2)
Total State Taxes and Fees	<u>\$4,774,496</u>	<u>56.24</u>	<u>\$426,370</u>	<u>\$400,186</u>	<u>6.5</u>	<u>\$2,927,076</u>	<u>\$2,713,553</u>	<u>7.9</u>	<u>3.9</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 2022 and 2023
(Dollars in Thousands)**

Revenue	FY 2023 Estimate	As a % of Total Fund	January			Year-To-Date			% Annual Growth Required By Est
			FY 2023	FY 2022	% Change	FY 2023	FY 2022	% Change	
COMMONWEALTH TRANSPORTATION FUND									
Motor Vehicle Fuels Taxes (Includes Aviation & Road Taxes)	\$1,481,100	17.45	\$133,067	\$126,438	5.2	\$859,995	\$743,668	15.6	15.0
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	1,194,100	14.07	104,879	96,442	8.7	732,394	730,533	0.3	(4.4)
State Sales and Use Tax	1,433,100	16.88	140,944	129,454	8.9	872,253	774,038	12.7	4.7
Motor Vehicle License Fees	200,700	2.36	22,341	20,011	11.6	117,746	128,998	(8.7)	(13.1)
Highway Use Fee	61,300	0.72	5,608	4,330	29.5	35,190	30,939	13.7	13.9
International Registration Plan	119,200	1.40	11,675	14,875	(21.5)	58,187	61,856	(5.9)	0.4
Insurance Premiums Tax	202,496	2.39	9	0	-	202,496	180,657	12.1	12.1
Recordation Tax	61,700	0.72	2,851	6,542	(56.4)	31,975	49,782	(35.8)	(24.4)
Total Commonwealth Transportation Fund	\$4,753,696	55.99	\$421,374	\$398,092	5.8	\$2,910,236	\$2,700,471	7.8	4.0
HIGHWAY MAINTENANCE AND OPERATING FUND									
Misc. Taxes, Fees, and Revenues	\$17,600	0.21	\$1,299	\$1,433	(9.4)	\$11,301	\$11,662	(3.1)	(17.2)
Other Miscellaneous Revenues	553,272	6.51	52,026	95,435	(45.5)	555,181	394,968	40.6	29.7
Federal Grants and Contracts	0	0.00	3,421	345	891.6	14,108	3,815	269.8	(100.0)
Transfer (to) / from Transportation Trust Fund	63,329	0.75	0	(50,000)	100.0	30,000	(201,969)	114.9	127.0
Total Highway Maintenance and Operating Fund	\$634,201	7.47	\$56,746	\$47,213	20.2	\$610,590	\$208,476	192.9	178.5
TRANSPORTATION TRUST FUND									
Interest Earnings	\$3,200	0.04	\$3,697	\$661	459.3	\$5,539	\$1,420	290.1	88.0
Federal Grants and Contracts	1,746,997	20.58	33,241	107,254	(69.0)	1,157,821	996,841	16.1	35.7
Receipts from Cities/Counties	1,002,622	11.81	31,776	59,739	(46.8)	197,498	407,516	(51.5)	49.1
Toll Revenues	73,840	0.87	12,549	1,603	682.8	29,981	14,472	107.2	107.2
Miscellaneous Revenues	338,311	3.99	4,738	20,410	(76.8)	187,399	304,584	(38.5)	(16.8)
Transfer (to) / from Highway Maintenance and Operating Fund	(63,329)	(0.75)	0	50,000	(100.0)	(30,000)	201,969	(114.9)	(127.0)
Total Transportation Trust Fund	\$3,101,641	36.54	\$86,001	\$239,667	(64.1)	\$1,548,238	\$1,926,802	(19.6)	17.6
TOTAL COMMONWEALTH TRANSPORTATION FUND, HIGHWAY MAINTENANCE AND OPERATING FUND, AND TRANSPORTATION TRUST FUND									
	\$8,489,538	100.00	\$564,121	\$684,972	(17.6)	\$5,069,064	\$4,835,749	4.8	14.2

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