

# The Virginia Economy and Commonwealth Transportation Fund Revenues

A Presentation to the  
Governor's Transportation Conference



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## *Topics For Discussion*

- Fiscal Year 2012 Year-in-Review
- Recent Economic Trends
- Commonwealth Transportation Fund
- Motor Fuels
- Motor Vehicle Sales
- Retail Sales
- Commonwealth Transportation Fund Forecast

## *Both The U.S. And Virginia Economies Performed Slightly Better Than Expected In Fiscal Year 2012...*

- As measured on a fiscal year basis (July through June), real GDP increased 2.0 percent compared with the forecast of 1.8 percent.

### **Summary of Key U.S. and Virginia Economic Indicators** Percent Change Over the Prior Fiscal Year

	FY11 <u>Actual</u>	FY12 <u>Forecast</u>	FY12 <u>Actual</u>
<b><u>U.S.</u></b>			
Real GDP	2.2	1.7	2.0
Consumer Spending	2.6	2.0	2.0
Employment	0.6	0.9	1.4
Personal Income	5.5	3.6	3.7
Wages & Salaries	3.9	3.3	3.4
<b><u>Virginia</u></b>			
Employment	1.0	1.2	1.6
Professional/Business	2.9	3.3	1.6
Construction/Mining	(1.1)	0.7	(1.8)
Education/Health	2.0	1.6	3.4
Government	0.4	(1.7)	0.8
Personal Income	5.6	3.9	4.0
Wages & Salaries	3.6	3.3	2.6

- In Virginia, employment gains were very close to expectations, as lower-than-expected gains for Professional and Business Services and Construction were offset by larger-than-expected gains in Education and Health and Government (mainly local government).

## *National and State Economic Indicators*

- National indicators have started to look a bit more positive.
- According to the advance estimate, real GDP grew at an annualized rate of 2.0 in the 3<sup>rd</sup> quarter of 2012, after growing 1.3 percent in the 2<sup>nd</sup> quarter and 2.0 percent in the 1<sup>st</sup> quarter.
- Payroll employment rose by 171,000 in October and employment in the last two months was revised upwards by 84,000.
- The national unemployment rate increased from 7.8 percent to 7.9 percent, as more workers joined the labor force.
- Initial claims for unemployment decreased by 8,000 to 355,000 during the week ending November 3.
  - The four-week moving average increased slightly from 367,250 to 370,500.
- In October, payroll employment in Virginia grew by 0.8 percent from October of last year.
  - Compared to last year, employment increased 1.7 percent in Northern Virginia, 0.4 percent in Richmond-Petersburg and 0.6 percent in Hampton Roads.
- The unemployment rate in Virginia fell 0.2 percentage point to 5.4 percent in October.

## *National and State Economic Indicators*

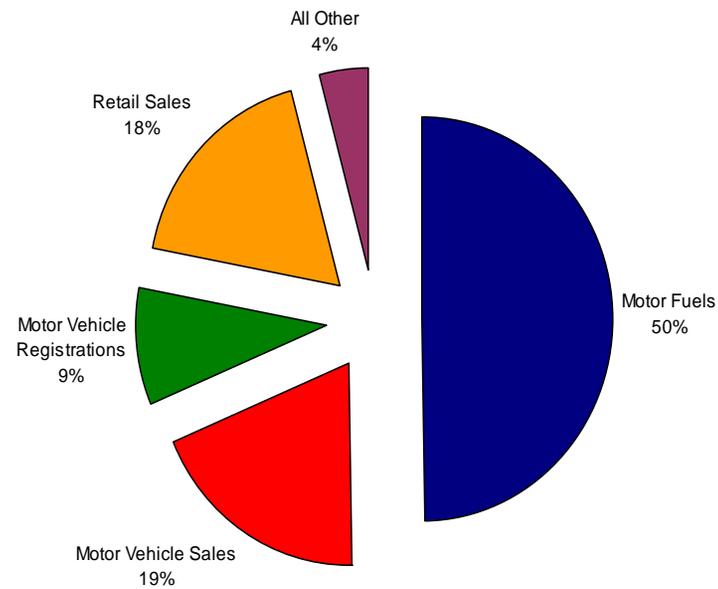
- The manufacturing sector continued to slowly expand in October, as the Institute of Supply Management index inched up from 51.5 to 51.7.
  - This marks the 2<sup>nd</sup> consecutive month that the index has been above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators increased 0.6 percent in September after falling 0.4 percent in August. The index has alternated up and down each month since April.
- The Conference Board's index of consumer confidence increased from 68.4 to 72.2 in October. It is now at its highest level since February 2011, when it reached 72.0.
- The CPI rose 0.1 percent in October and now stands 2.2 percent above October 2011.
  - Core inflation (excluding food and energy prices) rose 0.2 percent in October, and has increased 2.0 percent from October 2011.
- According to RealtyTrac, U.S. foreclosure activity for September declined 16.1 percent from September 2011 and is now at a five-year low.
  - One in every 730 U.S. housing units received a foreclosure notice in September.
  - In Virginia, one in every 1,315 households received a foreclosure notice.
- The saving rate decreased from 3.7 percent in August to 3.3 percent in September.
- At its October meeting, the Federal Reserve decided to keep its purchases of mortgage-backed securities unchanged at \$40 billion per month. The Federal Reserve kept the target range for the federal funds at 0.0 to 0.25 percent.

***Global Insight's October U.S. Standard forecast is less optimistic about FY13 due to the "window of uncertainty", but momentum builds afterwards....***

- Real GDP growth of 1.4 percent in the 3<sup>rd</sup> quarter (2.0 percent actual) and 1.6 percent in the 4<sup>th</sup> quarter of 2012.
  - Growth in FY13 is projected to be 1.7 percent versus 1.8 percent Official.
  - Growth in FY14 is projected to be 2.3 percent versus 3.2 percent Official.
- The biggest domestic risk is the fiscal cliff; however, Global Insight does not believe it will occur. Instead, they expect:
  - The lame-duck Congress will postpone the year-end fiscal cliff for a few months.
  - The new Congress and President will put together a new package of spending cuts and tax increases that will start in January 2014. (Specifically, they assume cuts in Medicare, Medicaid, Social Security and non-defense discretionary spending, and income tax increases.)
  - The Bush tax cuts will be extended for 2013.
- The biggest external risks are a deeper Eurozone recession and a harder landing in China.

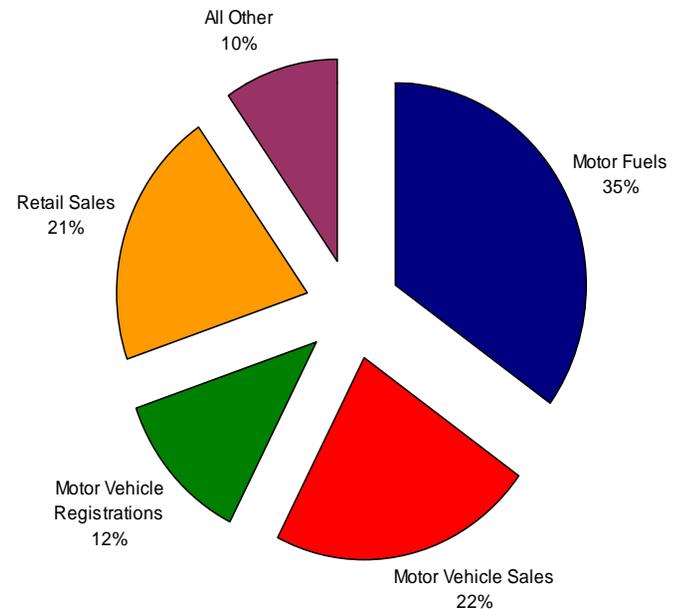
# Components of the Commonwealth Transportation Fund

## Components of HMOF Revenues – FY92 Percent Share of Total



\$1,260.7 million

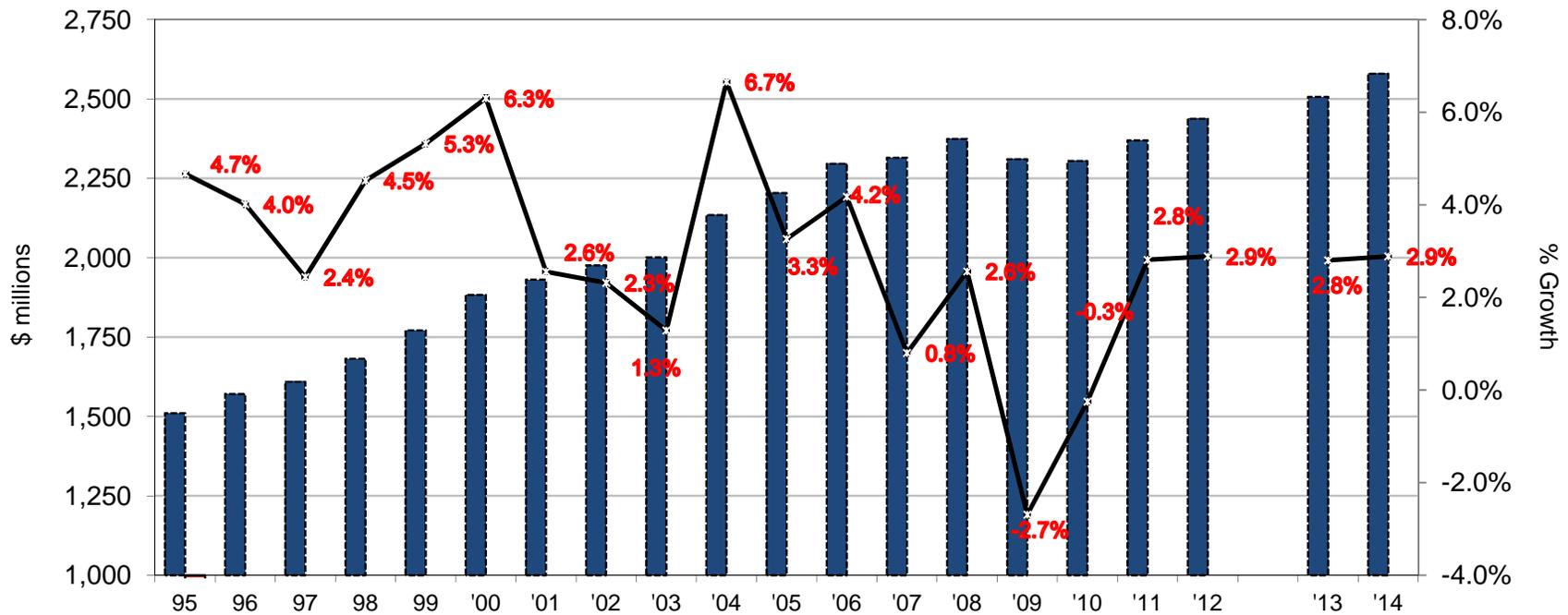
## Components of HMOF Revenues – FY12 Percent Share of Total



\$2,437.8 million

*Transportation fund revenues are expected to grow at modest rates over the next two years...*

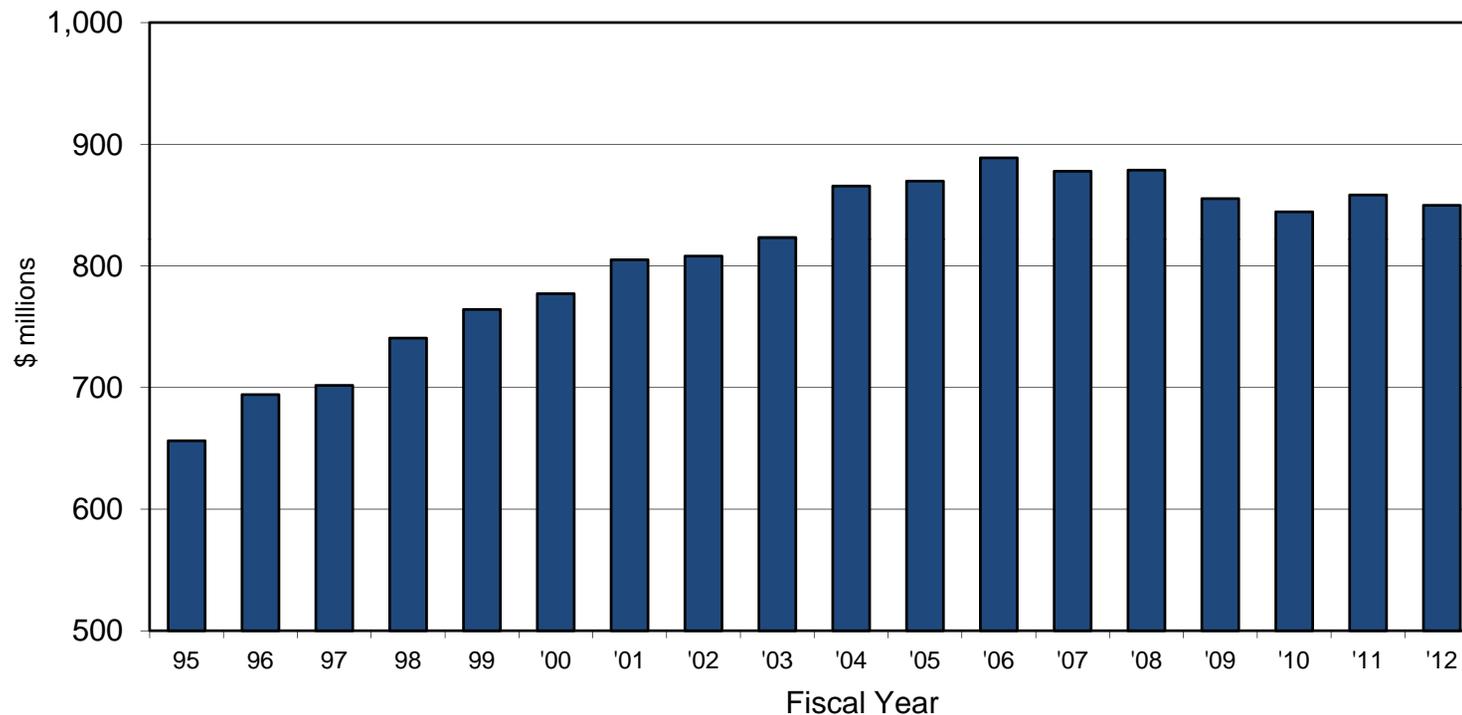
Commonwealth Transportation Fund  
FY95 – FY14  
Millions of Dollars



- For the first time in four years, FY12 collections exceeded those of FY08.

## *Motor fuels tax collections have not returned to their FY06 peak...*

Motor Fuels Tax Collections\*, FY95 – FY12  
Millions of Dollars



- Since FY95, the average annual percent growth in motor fuels tax collections is 1.4%. Over the last five years, the average annual decline has been 0.6%.

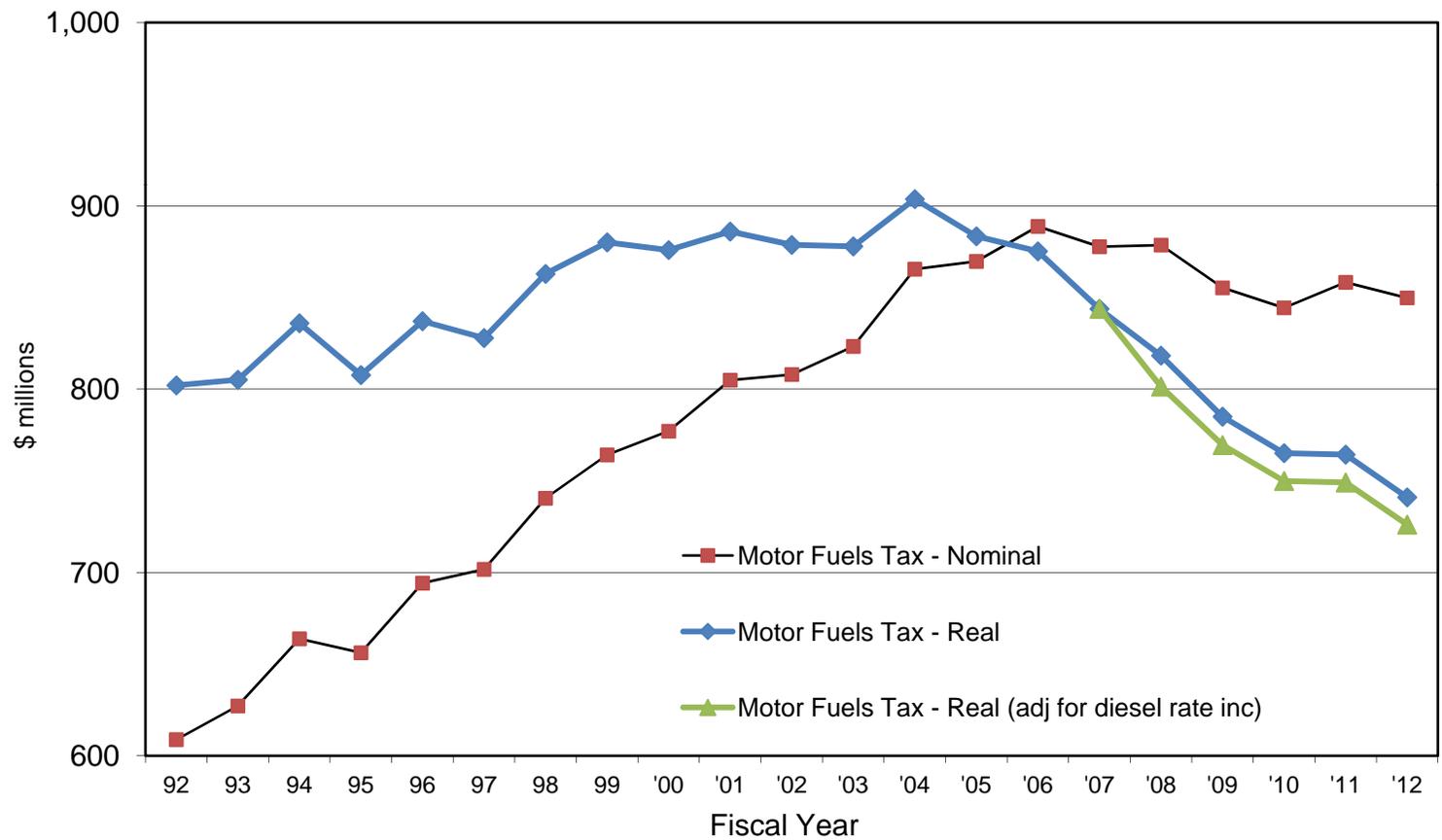
*\*includes net revenues of motor fuels taxes distributed to the HMOF, TTF, PTF and the DMV Special Fund.*

## *Virginia's motor fuel demand is affected by many different parameters, including...*

- Population growth
  - Since 2000, Virginia has been on a trend toward slower growth.
- Economic growth
  - The demand for motor fuels, particularly diesel, is driven by economic activity.
  - The Commonwealth experienced a deep recession in 2008 and the recovery has been sluggish.
- Fuel prices
  - Persistently high fuel costs lead to changes in vehicle types and settlement patterns.
- Vehicle mix and driving habits
  - There has been a significant movement to smaller.
  - New CAFE standards will accelerate this process.

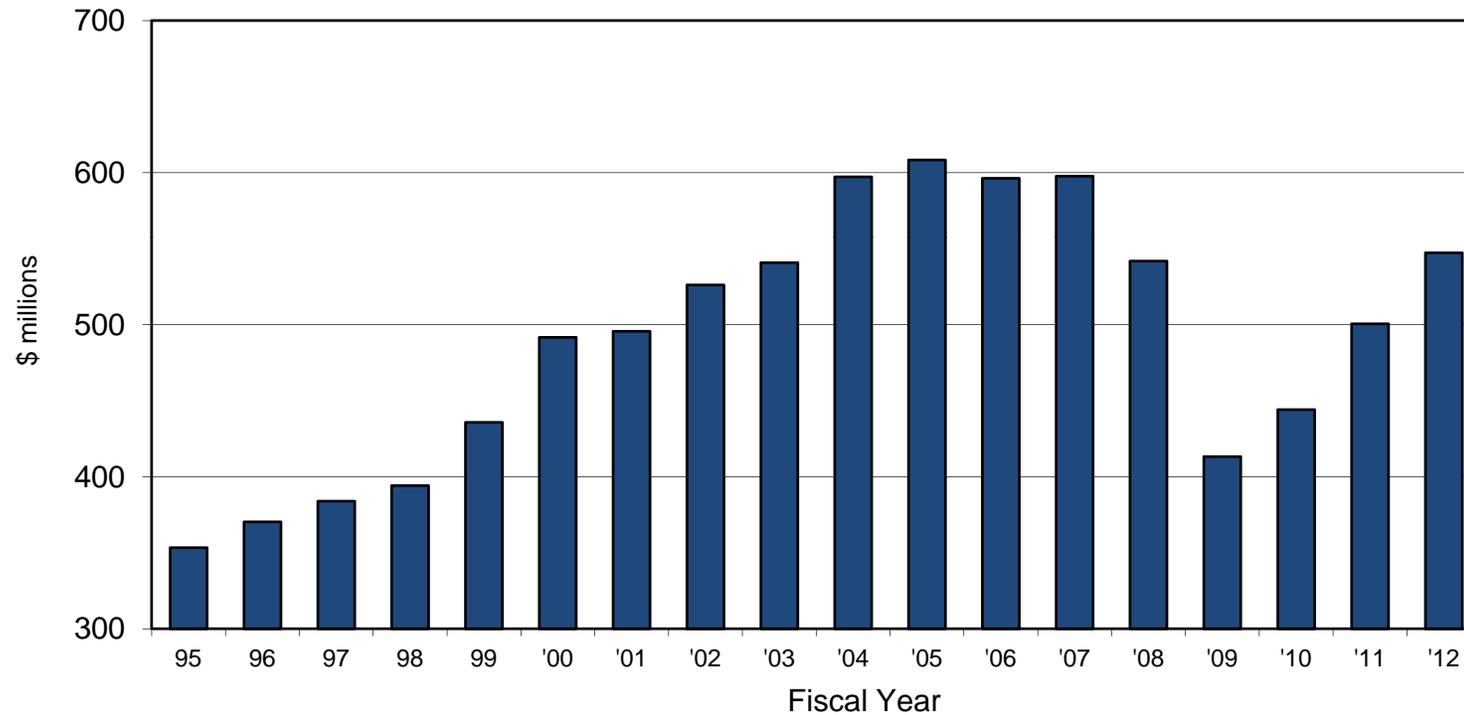
# Adjusted for inflation, motor fuels tax collections are at 20-year lows...

Motor Fuels Tax Collections, FY92-12  
Real – Inflation Adjusted  
Millions of Dollars



*Motor vehicle sales tax collections have not yet rebounded to the FY05 peak...*

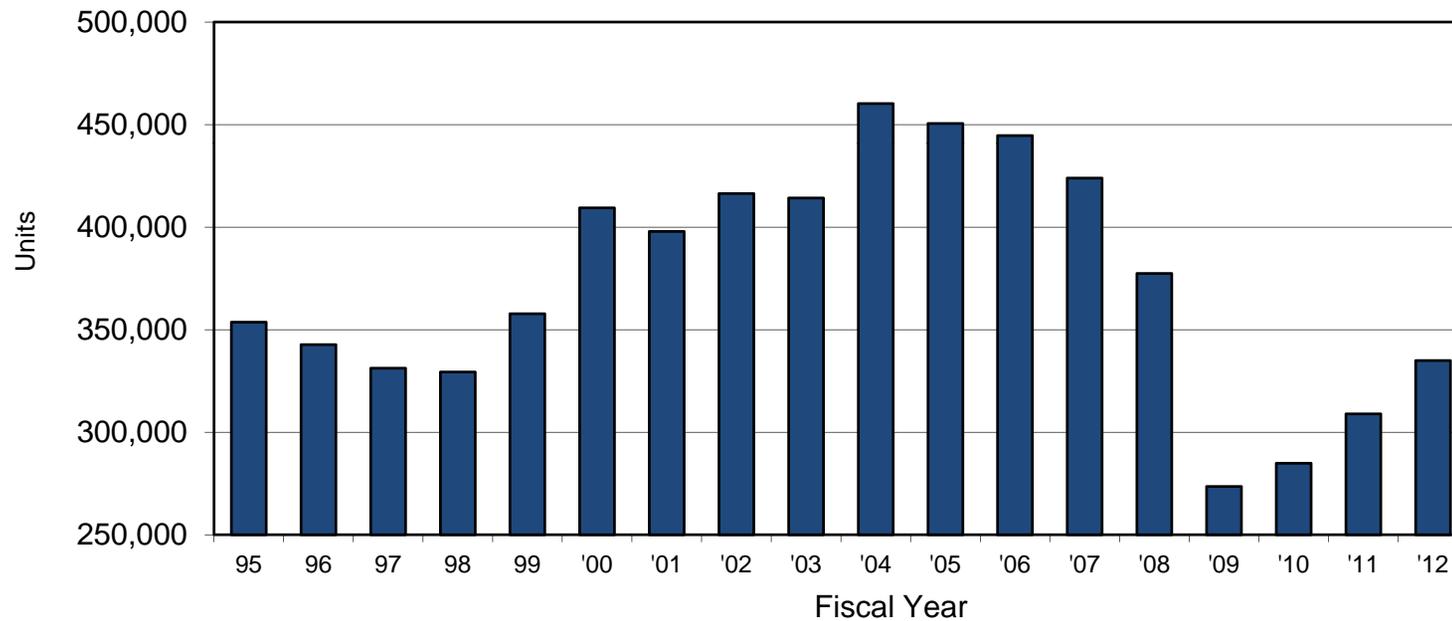
Motor Vehicle Sales Tax Collections, FY95 – FY12  
Millions of Dollars



- Growth over the last three years has averaged close to ten percent.

*Despite strong sales over the last two years, new car sales remain at mid-1990's levels...*

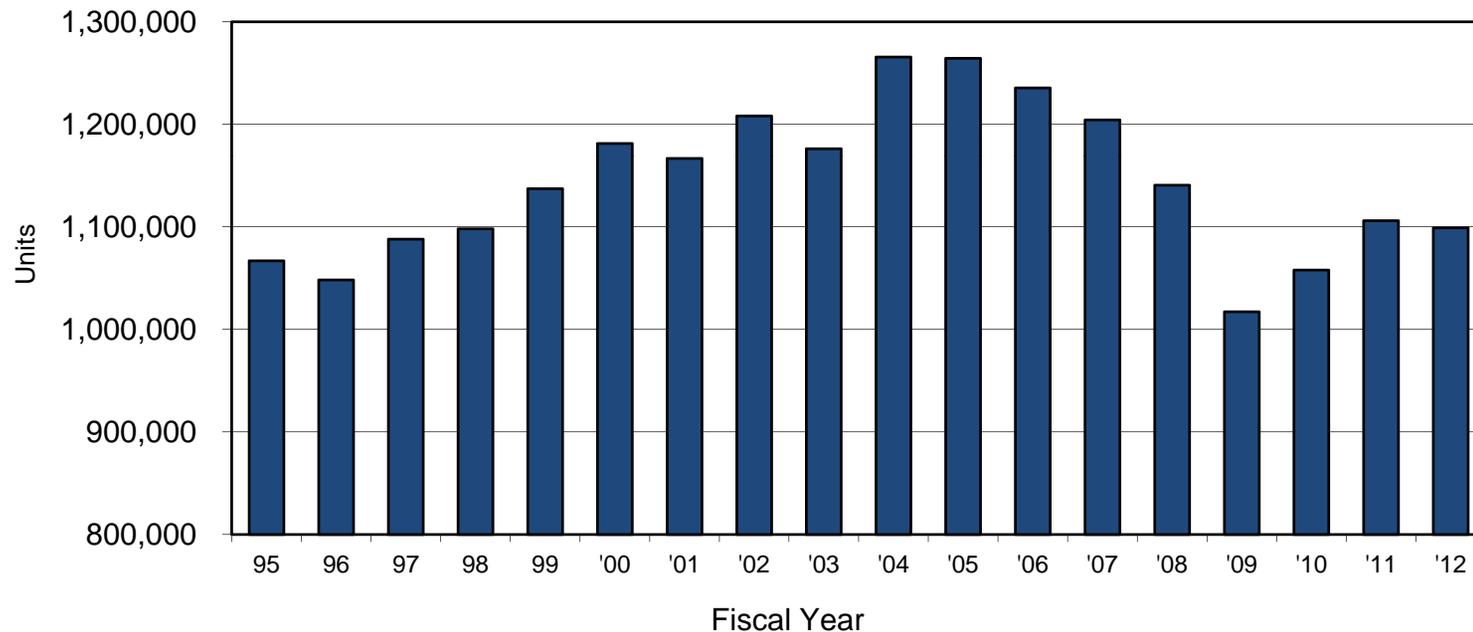
Virginia New Car Sales  
FY95 – FY12



- Sales over the next few years are expected to be driven by replacement demand.

*Used car sales generally follow a sales pattern similar to new car sales but sales were flat in FY12...*

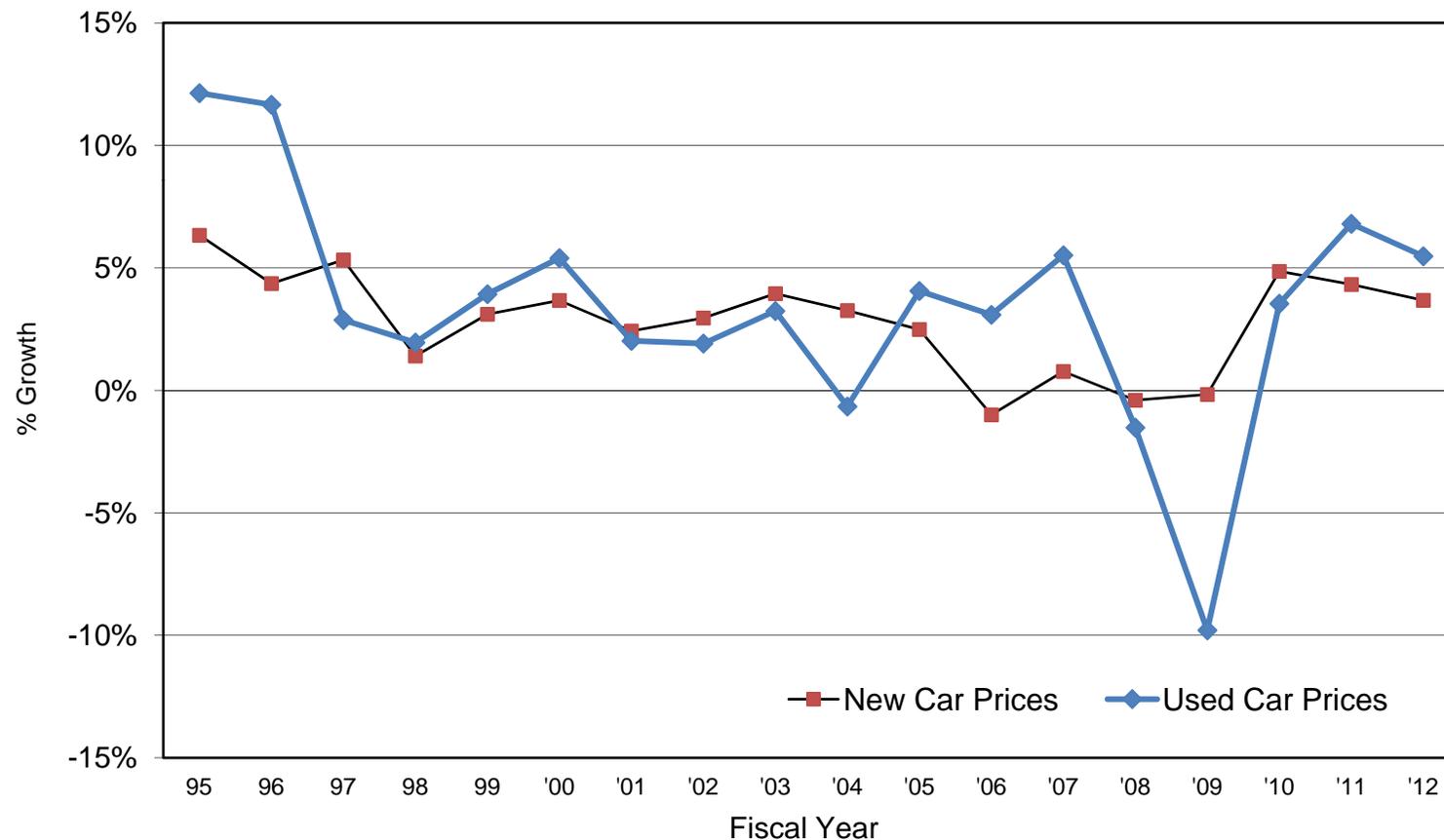
Virginia Used Car Sales  
FY92 – FY12



- Tight inventory of used vehicle less than five years old drove prices higher, pushing consumers into the new vehicle market.

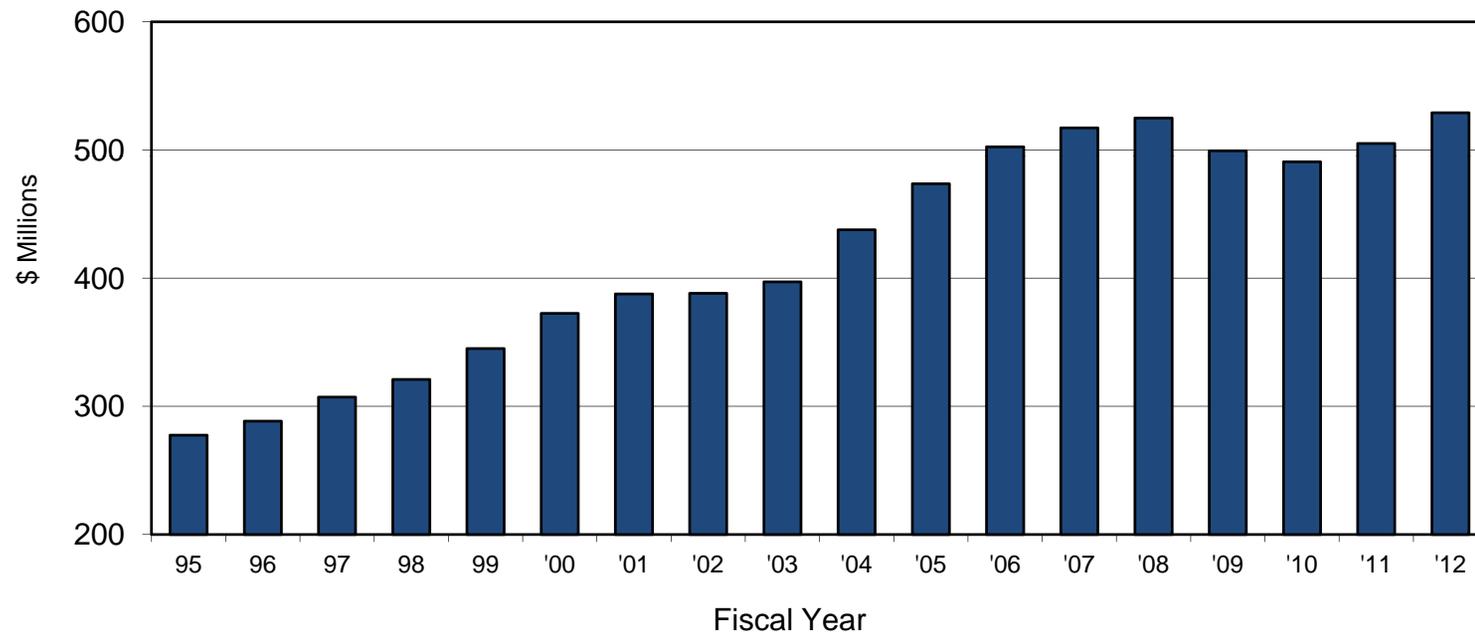
*Consumers' desires for more options have driven the average price higher even as smaller vehicles are replacing the SUV's purchased through the 2000's...*

New and Used Vehicle Prices  
FY95 – FY12



## *Retail sales tax collections returned to their FY08 level in FY12...*

Retail Sales Tax (TTF Portion)\*  
FY95 – FY12  
Millions of Dollars



*\*includes AST transfers.*

## October Year-to-Date CTF Revenue Collections for Fiscal Year 2012...

### Summary of FY12 CTF Revenue Collections July through October

	Collections	Fiscal Year 2013		Variance
		% Growth	% Forecast*	
Motor Fuels Tax (1)	\$ 228.4	2.0 %	0.6 %	1.4 %
Motor Vehicle Sales Tax (2)	212.8	8.1	6.7	1.4
Motor Vehicle License Fee	84.9	3.8	0.7	3.1
Retail Sales Tax	161.8	8.1	5.7	2.4
Priority Transportation Fund (3)	114.4	8.1	(3.9)	12.0
All Other	36.7	(0.0)	0.8	(0.8)
<b>Highway Maintenance Fund</b>	<b>\$ 430.8</b>	<b>5.6 %</b>	<b>2.5 %</b>	<b>3.1 %</b>
<b>Tranportation Trust Fund</b>	<b>\$ 408.3</b>	<b>7.0 %</b>	<b>3.3 %</b>	<b>3.7 %</b>
<b>Total CTF (4)</b>	<b>\$ 839.1</b>	<b>6.3 %</b>	<b>2.8 %</b>	<b>3.5 %</b>

Notes:

- (1) Includes aviation and road tax
- (2) Includes rental tax
- (3) Includes motor fuels floor stock tax and insurance premiums tax
- (4) Total State Taxes and Fees

\*November 2012 Commonwealth Transportation Fund forecast

## *Commonwealth Transportation Fund forecast through FY14*

	Fiscal Year 2013		Fiscal Year 2014	
	Estimate	% Growth	Estimate	% Growth
Motor Fuels Tax (1)	\$ 838.1	0.6 %	\$ 854.1	1.9 %
Motor Vehicle Sales Tax (2)	619.2	6.7	649.7	4.9
Motor Vehicle License Fee	237.3	0.7	237.4	0.0
Retail Sales Tax	532.0	5.7	552.1	3.8
Priority Transportation Fund (3)	151.1	(3.9)	151.0	(0.1)
All Other	129.0	0.8	135.1	4.7
<b>Highway Maintenance Fund</b>	<b>1,411.8</b>	<b>2.5</b>	<b>1,448.3</b>	<b>2.6</b>
<b>Transportation Trust Fund</b>	<b>1,094.9</b>	<b>3.3</b>	<b>1,131.1</b>	<b>3.3</b>
<b>Total CTF (4)</b>	<b>\$ 2,506.7</b>	<b>2.8 %</b>	<b>\$ 2,579.4</b>	<b>2.9 %</b>

Notes:

- (1) Includes aviation and road tax
- (2) Includes rental tax
- (3) Includes motor fuels floor stock tax and insurance premiums tax
- (4) Total State Taxes and Fees

Questions??

*Thanks!!!*

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