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California Energy Commission

STAFF REPORT

Alternative Funding Options for the Clean Transportation Program

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California Energy Commission

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ABSTRACT

The California Energy Commission's Clean Transportation Program invests in zero-emission vehicle infrastructure throughout the state of California, including electric vehicle charging stations and hydrogen refueling infrastructure. In addition to investments in zero-emission vehicle infrastructure, the Clean Transportation Program also prioritizes jobs, economic stimulus, and equity.

The Clean Transportation Program currently receives approximately $100 million in annual funding through fees included in certain vehicle registration and smog charges, in addition to other revenue sources. These fees were first authorized by Assembly Bill (AB) 118 (Núñez, Chapter 750, Statutes of 2007), were reauthorized by AB 8 (Perea, Chapter 401, Statutes of 2013), and most recently were reauthorized by AB 126 (Reyes, Chapter 319, Statutes of 2023). AB 126 authorized these fees to July 1, 2035. These fees are codified at Sections 9250.1 and 9261.1 of the Vehicle Code and Section 44060.5 of the Health and Safety Code and are referred to as the "AB 126 fees" throughout this report.

The AB 126 fees are vital to California's zero-emission vehicle infrastructure efforts because, unlike General Fund or Cap-and-Invest revenue, they provide a dedicated, stable, and predictable funding stream for the Clean Transportation Program. In the absence of the AB 126 fees, the Clean Transportation Program would have to be significantly curtailed, leaving private investors in zero-emission vehicle infrastructure with less certainty of long-term state support.

While AB 126 reauthorized the AB 126 fees, the law also directed the Commission to examine alternative funding methodologies, fee structures, and the economic equity of fee funding for zero-emission vehicle infrastructure. This report presents options for funding zero-emission vehicle infrastructure, including the expected economic equity impact of each option.

Keywords: Clean Transportation Program, vehicle fees, Zero-emission vehicle (ZEV), ZEV infrastructure, Assembly Bill 126, California Energy Commission, California Department of Motor Vehicles, California Air Resources Board

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EXECUTIVE SUMMARY

California has committed to achieving carbon neutrality by 2045. The transportation sector contributes almost 50 percent of California's greenhouse gas emissions when accounting for upstream emissions. Transportation is also the leading cause of air pollution in California. To reduce air pollution, California has created policies to transition away from the usage of fossil fuel-powered vehicles.

Zero-emission vehicles consist of plug-in electric vehicles and fuel cell electric vehicles, which respectively require electric charging and hydrogen refueling stations. While the availability of this infrastructure in California is increasing, many more stations must be installed in the next decade to meet state goals.

These commitments are supported by the California Energy Commission (CEC), which administers the Clean Transportation Program to fund California's carbon neutrality and emission reduction targets through investment in zero-emission vehicle (ZEV) infrastructure. The CEC is the primary state agency tasked with building out this infrastructure, which is funded through both public and private investment. State funding for zero-emission vehicle infrastructure should be consistent, dedicated, and predictable to provide certainty to private investors.

The most consistent, dedicated, and predictable source of state funding for zero-emission vehicle infrastructure is currently a small fee included in vehicle registration, smog abatement, and vehicle identification fees which are collected annually or biennially by the California Department of Motor Vehicles. The Clean Transportation Program currently receives approximately $100 million in annual funding through these fees which were first authorized by Assembly Bill (AB) 118 (Núñez, Chapter 750, Statutes of 2007), were reauthorized by AB 8 (Perea, Chapter 401, Statutes of 2013), and most recently were reauthorized by AB 126 (Reyes, Chapter 319, Statutes of 2023) until July 1, 2035. These fees are codified in Sections 9250.1 and 9261.1 of the Vehicle Code and Section 44060.5 of the Health and Safety Code, and are referred to as "AB 126 fees" throughout this report.

The AB 126 fees are small components of the total vehicle registration, smog abatement, and vehicle identification fees. Vehicle identification fees are primarily charged to off-highway vehicles, which are vehicles that are operated exclusively off the highways on lands that are open and accessible to the public; all-terrain vehicles are a typical off-highway vehicle.

These fees are currently charged on a flat basis, regardless of vehicle weight or value, and do not adjust for inflation. This means that the real value of the revenue from the AB 126 fees per registration has continually declined on a per vehicle basis since they were first authorized in 2007. Each specific fee component is illustrated in Table ES-1 below.

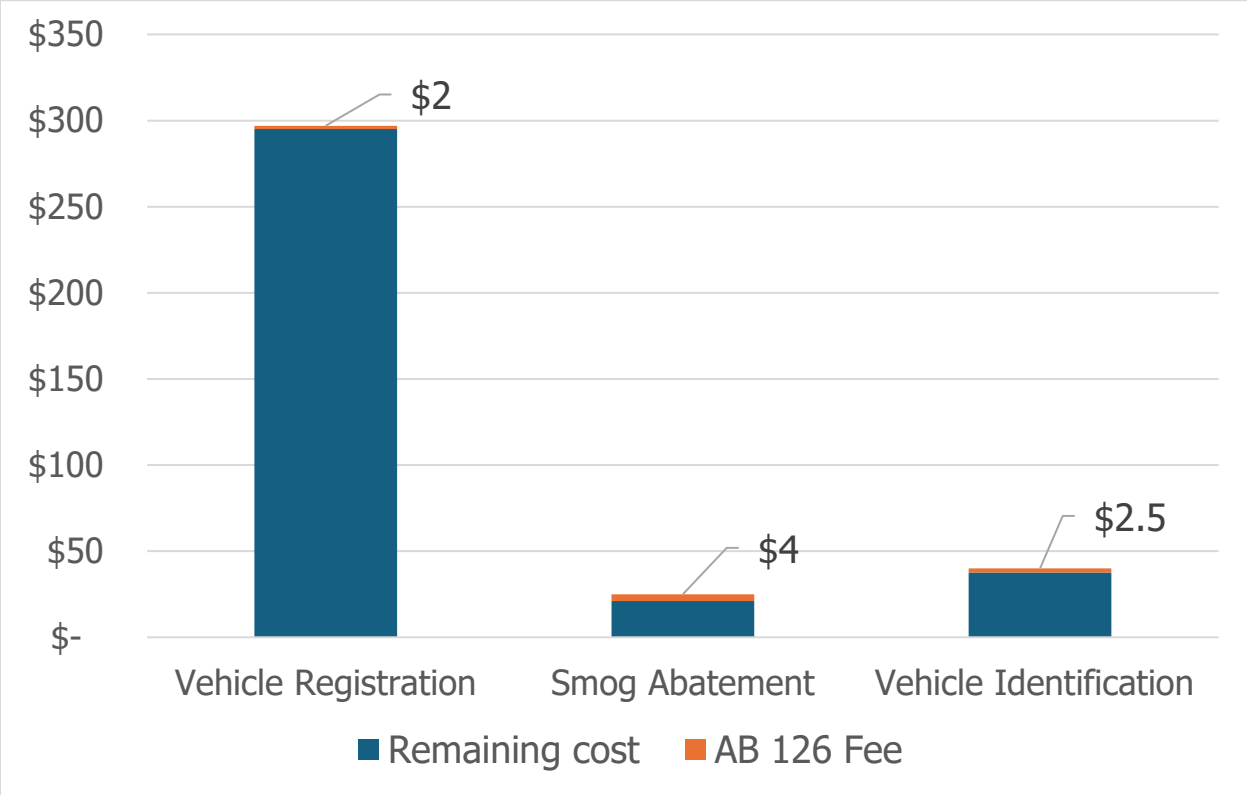
Table ES-1: AB 126 Fees Allocated to the Clean Transportation Program

Fee Type	Amount	Paid by	Frequency
Vehicle Registration	$2.00	Light-duty vehicle owners	Annually
Smog Abatement	$4.00	Light-duty vehicle owners	Annually
Vehicle Identification	$2.50	Off-highway vehicle owners	Every other year

Source: California Energy Commission staff.

The AB 126 fees make up a small portion of the overall vehicle fees they are embedded within, as illustrated in Figure ES-1.

Figure ES-1: AB 126 Fee Contribution to Total Fee



Source: California Energy Commission staff, based on information provided by the California Department of Motor Vehicles.

Collectively, AB 126 fees generated approximately $175 million in annual revenue in Fiscal Year 2023-2024, though this amount can vary year to year. Of this $175 million, approximately $100 million is allocated to the CEC, with the remainder going to programs authorized by the California Air Resources Board (CARB) and the Bureau of Automotive Repair.

The CEC primarily invests this revenue in zero-emission vehicle infrastructure through the Clean Transportation Program. Since its inception, the Clean Transportation Program has

provided more than $2.4 billion in funding towards zero-emission vehicle infrastructure, alternative fuels and technologies, and workforce development projects. In recent years the Legislature has shifted the focus of the Clean Transportation Program towards zero-emission vehicle infrastructure, including electric vehicle charging stations and hydrogen refueling stations, and away from other alternative fuels. These investments result in health, environmental, and economic benefits to California and to local communities.

Alternative Fee Structures and Funding Options

AB 126, among other things, directs the CEC to propose to the Legislature alternative funding methodologies or fee structures for funding zero-emission vehicle infrastructure for light-, medium-, and heavy-duty vehicles, including an assessment of the economic equity of these options. This assessment is described in detail in Chapter 5. Economic equity is defined as the fair treatment, meaningful involvement, and investment of resources to all Californians. This definition of economic equity is adapted from the definition of equity used in the CEC *2023–2024 Investment Plan Update for the Clean Transportation Program.*[1]

This report provides five alternative funding options for consideration by the Legislature, fulfilling the requirement of Health and Safety Code section 44272.6. However, these options are not mutually exclusive, and the Legislature may choose to pursue any combination of them. For example, the Legislature could reform the AB 126 fees by applying Options 1 – 3 simultaneously.

This report was prepared in consultation with CARB and the California Department of Motor Vehicles.

These options consist of either revising how the AB 126 fees are assessed or replacing these fees with other funding options. Note that Options 1 – 3 could be applied to the AB 126 fee portion of the vehicle registration fee and smog fee, though only the vehicle registration fee is examined in detail in this report.

Option 1: Adjust AB 126 Fees for Inflation

The current AB 126 fee structure is not indexed for inflation, which causes the real value of the funding raised by these fees to continually decline in per vehicle terms over time. This option proposes periodically adjusting the AB 126 fees to account for changes in inflation.

Option 2: Set AB 126 Fees Based on Vehicle Weight

The current AB 126 fee structure is only paid by light-duty vehicle owners and excludes medium- and heavy-duty vehicles. This option proposes having all vehicle owners (light-, medium-, and heavy-duty) pay vehicle registration fees under a tiered payment structure where vehicles in heavier weight classes pay higher fees.

1 Tuggy, Benjamin. 2024. *2023–2024 Investment Plan Update for the Clean Transportation Program*. California Energy Commission. Publication Number: CEC-600-2023-029-CMF, 80.

Option 3: Set AB 126 Fees Based on Vehicle Value

The current AB 126 fee structure is a flat fee where all vehicle owners pay the same amount regardless of vehicle value. This option proposes creating a tiered fee structure where more valuable vehicles pay higher fees.

Option 4: Supplement AB 126 Fees Through Funding from the Greenhouse Gas Reduction Fund

This option proposes supplementing the AB 126 fees with discretionary funding from California's Greenhouse Gas Reduction Fund. In this approach, a portion of the funding from the fund would be allocated to the Clean Transportation Program to support ZEV infrastructure.

Option 5: Offset AB 126 Fees by Issuing General Obligation Bond

This option proposes replacing the AB 126 fees with funding from a new general obligation bond.

CHAPTER 1: Introduction

California has committed to achieving carbon neutrality by 2045. The transportation sector contributes almost 50 percent of California's greenhouse gas (GHG) emissions, when accounting for upstream emissions.[2] Transportation is also the leading cause of air pollution in California, as shown in Table 1.[3]

Table 1: Sources of Air Pollutants

Pollutant	Examples of Sources
Particulate Matter (PM2.5 and PM10: less than or equal to 2.5 or 10 microns, respectively)	• Cars and trucks (especially diesels) • Fireplaces, woodstoves • Windblown dust from roadways, agriculture and construction
Ozone (O_3)	Precursor sources;[4] motor vehicles, industrial emissions, and consumer products
Carbon Monoxide (CO)	Any source that burns fuel such as cars, trucks, construction and farming equipment, and residential heaters and stoves
Nitrogen Dioxide (NO_2)	See carbon monoxide sources
Toxic Air Contaminants	• Cars and trucks (especially diesels) • Industrial sources, such as chrome platers • Neighborhood businesses, such as dry cleaners and service stations • Building materials and products

Source: California Air Resourced Board.

To reduce this air pollution, California has created policies to transition away from the usage of fossil-fuel-powered-vehicles to zero-emission vehicles (ZEVs).

Table 2 defines and provides examples of weight classes of vehicles.

2 California Air Resources Board. 2024. "Current California Greenhouse Gas Emission Inventory Data 2000 to 2022." https://ww2.arb.ca.gov/ghg-inventory-data

3 California Air Resources Board. "Sources of Air Pollution." https://ww2.arb.ca.gov/resources/sources-air-pollution

4 Ozone is not generated directly by these sources. Rather, chemicals emitted by these precursor sources react with sunlight to form ozone in the atmosphere.

Table 2: Vehicle Weight Classes

Class	Gross vehicle weight rating (GVWR)	Example
Light-duty	Less than 10,000 pounds	Passenger cars, light-trucks, vans
Medium-duty	Between 10,000 - 26,000 pounds	Flat-bed tow trucks, large panel trucks, large maintenance trucks, medium school buses, and step vans
Heavy-duty	Above 26,000 pounds	City transit buses, garbage trucks, drayage trucks, and long-haul trucks

Source: CEC staff. The weight classes above are for the purpose of this report only and may differ from other state classifications of vehicle weight classes.

In 2025, the Governor issued Executive Order N-27-25, which reaffirmed California's commitment to accelerate the deployment of all classes of ZEVs. While recent illegal federal efforts to revoke California's Clean Air Act waivers have threatened the state's ability to meet climate and clean air goals, Executive Order N-27-25 strengthens California's leadership in clean transportation.[5]

California's clean air policies support the adoption of ZEVs: electric vehicles (EVs) and fuel cell electric vehicles (FCEVs). EVs are electric vehicles that are powered by a rechargeable battery. FCEVs are vehicles that are powered by hydrogen fuel cells.

Over 2.4 million EVs and 18,000 FCEVs have been sold in California through September 2025, making California the state with the highest ZEV adoption rate in the US.[6] As ZEV sales move beyond the early adopters, however, sustained ZEV adoption will depend on adequate ZEV infrastructure availability. EVs require charging infrastructure that dispenses electricity and FCEVs require fueling infrastructure that dispenses hydrogen.

As of February 2025, the CEC identified approximately 179,000 public or shared EV chargers currently within the state.[7] While California has progressively deployed EV infrastructure, with 2024 being the best year in terms of EV chargers deployed, continued public investments are needed. ZEV infrastructure is funded through both public and private investment. State funding for ZEV infrastructure should be consistent, dedicated, and predictable to provide certainty to private investors and ZEV accessibility to all Californians. The most consistent,

5 Executive Department State of California. June 12, 2025. "EXECUTIVE ORDER N-27-25". http://www.gov.ca.gov/wp-content/uploads/2025/06/CRNA-Responses-EO-N-27-25_bl-formatted-GGN-Signed-6-11-954pmFinal.pdf

6 California Energy Commission. 2025. "New ZEV Sales in California." Data last updated May 16, 2025. Retrieved June 25, 2025. https://www.energy.ca.gov/zevstats

7 California Energy Commission. 2025. "Electric Vehicle Chargers in California." Data last updated February 5, 2025. Retrieved June 25, 2025. https://www.energy.ca.gov/zevstats

dedicated, and predictable source of state funding for ZEV infrastructure is currently a small fee included in vehicle registration, smog abatement, and vehicle identification fees collected annually or biennially by the California Department of Motor Vehicles (DMV).

AB 118 (Núñez, Chapter 750, Statutes of 2007) first authorized collecting these fees until 2015. AB 8 (Perea, Chapter 401, Statues of 2013) reauthorized the fees until 2024. In 2023, these fees were reauthorized to July 1, 2035, by AB 126 (Reyes, Chapter 319, Statutes of 2023). These fees are codified at Sections 9250.1 and 9261.1 of the Vehicle Code and Section 44060.5 of the Health and Safety Code.

The AB 126 fees are a small component of the larger total vehicle registration, smog abatement, and vehicle identification fees. These fees are currently charged on a flat basis, regardless of vehicle weight or value and are not adjusted for inflation. Each specific fee component is illustrated in Table 3 below.

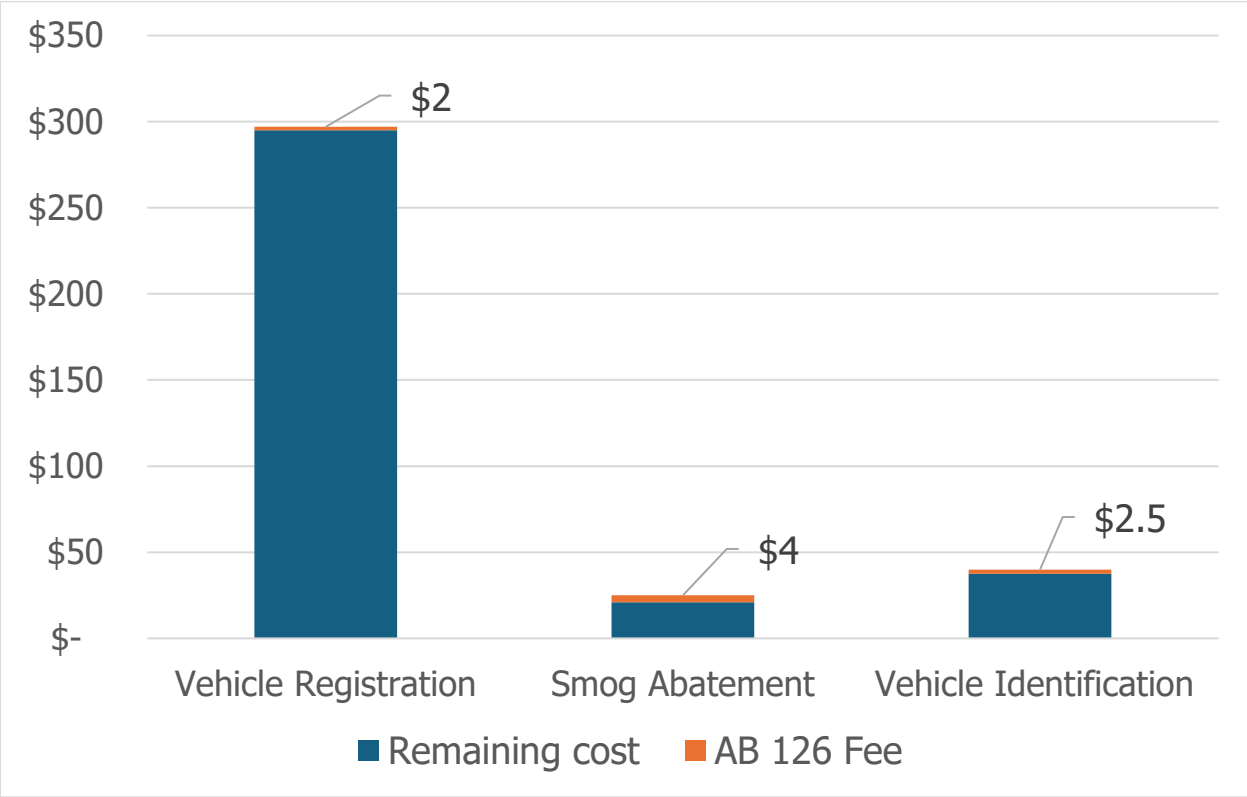
Table 3: AB 126 Fees Allocated to the Clean Transportation Program

Fee Type	Amount	Paid by	Frequency
Vehicle Registration	$2.00	Light-duty vehicle owners	Annually
Smog Abatement	$4.00	Light-duty vehicle owners	Annually
Vehicle Identification	$2.50	Off-highway vehicle owners	Biennially

Source: CEC staff. There are certain situations where the Vehicle Identification Fee can be applied more broadly than just off-highway vehicle owners.

The AB 126 fees make up a small portion of the overall fees as illustrated in Figure 1.

Figure 1: AB 126 Fees Allocated to the Clean Transportation Program Contribution to Total Fee



Source: CEC staff, based on information provided by the California DMV.

AB 126 fees collectively generate approximately $175 million in annual revenue, although this varies from year to year. For example, the AB 126 fees generated about $167 million in Fiscal Year 2023-2024. Of this approximately $175 million, about $100 million is allocated to the CEC, with the remainder going to programs authorized by the California Air Resources Board (CARB) and Bureau of Automotive Repair.

The CEC invests this revenue primarily in ZEV infrastructure through the Clean Transportation Program (CTP). Since its inception the CTP has provided more than $2.4 billion in funding towards ZEV infrastructure, alternative fuels and technologies, and workforce development projects. In recent years the Legislature has shifted the focus of the CTP towards ZEV infrastructure, including EV charging stations and hydrogen refueling stations, and away from alternative fuels.[8] These investments result in health, environmental, and economic benefits to California and local communities. The CTP's recent investments are described in the CEC report *2024–2025 Investment Plan Update for the Clean Transportation Program.*[9]

8 Tuggy, Benjamin. 2025. *2024–2025 Investment Plan Update for the Clean Transportation Program.* California Energy Commission. Publication Number: CEC-600-2024-047-CMF.

9 Ibid.

In addition to reauthorizing the AB 126 fees, AB 126 directs the CEC to propose alternative funding methodologies or fee structures for funding ZEV infrastructure for light-, medium-, and heavy-duty vehicles, and assess the economic equity of these options. This requirement is codified at Health and Safety Code section 44272.6 and requires the CEC to deliver a report to the Legislature.

The report is organized as follows:

- Chapter 1 provides an overview of the report and background information on California's policies aimed at reducing the carbon intensity of the transportation sector.
- Chapter 2 describes various funding mechanisms currently used by the state to fund ZEV infrastructure.
- Chapter 3 proposes three alternative ways of collecting AB 126 fees.
- Chapter 4 proposes two alternative ways of reducing AB 126 fees.
- Chapter 5 assesses the economic equity of the proposed alternatives.

In accordance with Health and Safety Code section 44272.6, this report was prepared in consultation with staff from CARB and DMV.

CHAPTER 2:
ZEV Infrastructure Funding Sources

Estimates by the CEC anticipate that California will need to continue adding ZEV infrastructure to support ZEV adoption and meet state goals. To date, ZEV infrastructure in California has received substantial financial support from the state and electric utilities, in addition to leveraging private investment through match share requirements. These investments have been imperative to the success of California's ZEV policies. This chapter summarizes major public funding sources used to fund ZEV infrastructure.

AB 126 Fees

AB 126 fees are currently reauthorized through July 1, 2035.[10] Collectively, AB 126 fees generate approximately $175 million in annual revenue.[11] AB 126 fees fund three ZEV and ZEV infrastructure programs: the Air Quality Improvement and Enhanced Fleet Modernization Programs administered by CARB and the Bureau of Automotive Repair, and the Clean Transportation Program administered by the CEC. The portion of each fee flowing to each program is shown in Table 4.

Table 4: AB 126 Fee-Funded Zero-Emission Vehicle and Infrastructure Programs

Fee	Air Quality Improvement Program	Clean Transportation Program	Enhanced Fleet Modernization Program	Total
Smog Abatement Fee[12]	$4.00	$4.00	–	$8.00
Vehicle Identification Fee[13]	$2.50	$2.50	–-	$5.00
Vehicle Registration Fee	–	$2.00	$1.00	$3.00

Source: CEC staff. Table adapted from Petek, Gabriel, 2023, *The 2023-24 Budget: Proposed Reauthorization of AB 8 Vehicle Fees*, Legislative Analyst Office, http://lao.ca.gov/Publications/Report/4708.

10 The AB 126 fees additionally fund the Carl Moyer Program, administered by the CARB, and the Waste Tire Program, administered by the California Department of Resources Recycling and Recovery. However, these fee portions were separately extended by AB 2836 (2024, E. Garcia) prior to the passage of AB 126, and are not discussed in this report.

11 Petek, Gabriel. February 2023. "Proposed Reauthorization of AB 8 Vehicle Fees." Legislative Analyst Office. http://lao.ca.gov/Publications/Report/4708

12 Applies to vehicles six years old or less in lieu of a mandatory smog test.

13 Applies only to off-highway vehicles, which are motor vehicles not otherwise registered under this code, operated exclusively off the highways on lands that are open and accessible to the public.

The portion of AB 126 fees administered by CARB primarily funds the Air Quality Improvement Program (AQIP). This program is focused on supporting the adoption of cleaner vehicles to achieve reductions in smog concentrations, diesel particulates, and other air pollutants and GHG emissions. AQIP has invested approximately $402 million from 2008 through 2022.[14] A smaller portion of AB 126 fees flow to the Enhanced Fleet Modernization Program, which is administered by CARB and the Bureau of Automotive Repair. This program is a voluntary vehicle replacement program that provides resources for low-income residents to replace old vehicles with cleaner and more energy efficient cars. These portions of the AB 126 fees do not fund ZEV infrastructure, are not covered by Health and Safety Code section 44272.6, and are not the subject of this report.

The CEC receives approximately $100 million annually from the AB 126 fees, as shown in Table 5.

Table 5: Recent CEC Revenue from AB 126 Fees

Fiscal Year	CEC Revenue
2020-21	$110,028,000
2021-22	$105,749,000
2022-23	$103,670,000
2023-24	$100,282,000

Source: CEC staff.

The CEC's portion of AB 126 fees support the CTP, which invests in ZEV infrastructure throughout the state. Since its inception in 2008, the CTP has provided more than $2.4 billion in funding towards ZEV infrastructure, alternative fuels and technologies, and workforce development projects.[15]

Each year, the CEC prepares a CTP investment plan update through a public process. The 2024-2025 Investment Plan Update prioritized EV charging infrastructure, hydrogen refueling infrastructure, and workforce training and development. Development of the 2025-2026 Investment Plan Update is underway.[16]

As shown in Figure 2 below, more than 50 percent of CTP investments support low-income or disadvantaged communities. However, geographic-based investment data is an imperfect

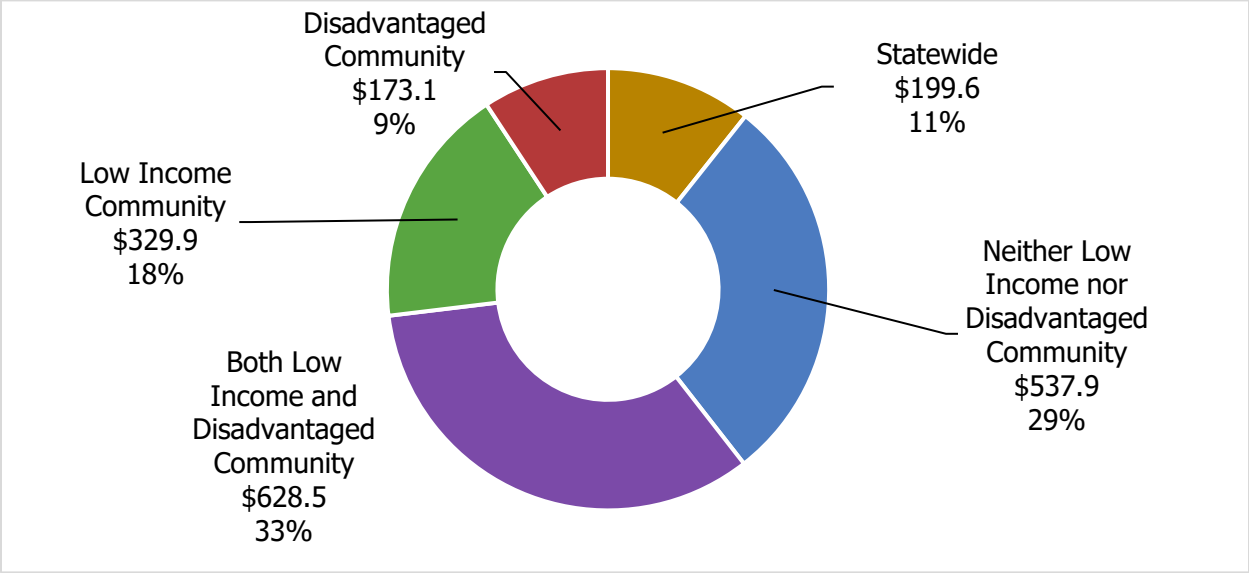
14 California Air Resources Board. October 23, 2023. "2022 Biennial Report to the Legislature on the Assembly Bill 118 Air Quality Improvement Program Fiscal Years 2020-21 and 2021-22". https://ww2.arb.ca.gov/sites/default/files/2023-10/2022%20Biennial%20AQIP%20Report.pdf

15 Not all of this $2.4 billion in funding came from AB 126 fees.

16 More information on the development of the 2025-2026 Investment Plan Update is available as part of the Clean Transportation Program Advisory Committee meeting held on October 27, 2025. https://www.energy.ca.gov/event/workshop/2025-10/public-meeting-advisory-committee-clean-transportation-program-investment

measurement of equity; just because a project is located within a low-income or disadvantaged community, the benefits of the project (whether in terms of air quality, economic benefit, or mobility) do not necessarily accrue to the residents. The CEC has used a public stakeholder process to augment how to measure and evaluate equitable investments that go beyond location-based metrics.

Figure 2: CTP Funding in Disadvantaged and Low-Income Communities (in Millions)



Source: CEC staff.

Note that Figure 2 includes investments from the beginning of the Clean Transportation Program through early 2025. "Disadvantaged communities" are defined as communities within the top 25 percent scoring areas under CalEnviroScreen, as well as areas of high pollution and low population (such as ports). "Low-income communities" are defined as communities that are at or below 80 percent of the statewide median income. These designations require projects to be located in a specific area; "statewide" projects are not assigned to any specific community type and are therefore not considered to be located in disadvantaged or low-income communities.

While the CTP is solely funded by AB 126 fees, the CEC's funding support for ZEV infrastructure has been augmented by appropriations in some recent budget years from different fund sources. In recent years, for example, the CEC has also received one-time appropriations from the General Fund and Greenhouse Gas Reduction Fund (GGRF) to expand ZEV infrastructure investments aligned with the CTP. However, these one-time investments do not provide long-term consistency or certainty to the ZEV infrastructure market and are often adjusted each year.

Ratepayer Funding

EV charging infrastructure is also funded, in part, through investments by electric utilities. Senate Bill (SB) 350 (de León, Chapter 547, Statutes of 2015), first directed electric investor-owned utility (IOU) companies to prepare funding proposals to accelerate the deployment of transportation electrification.[17] These IOU investments must be authorized by the California Public Utilities Commission (CPUC) and are paid for by utility ratepayers. For investments authorized in response to SB 350, IOUs are generally incentivized to invest in ZEV infrastructure because IOUs are authorized to recover the cost of their investments for utility-owned investments.

Current IOU behind-the-meter EV charging investment programs include but are not limited to:

- Pacific Gas & Electric Company: $245 million for medium- and heavy-duty EV infrastructure through the EV Fleet Program[18] and $23 million for light-duty EV infrastructure through the Fast Charge program.[19]
- Southern California Edison: $356 million for medium- and heavy-duty EV infrastructure through the Charge Ready Transport program[20] and $436 million for light-duty EV infrastructure through the Charge Ready program.[21]
- San Diego Gas & Electric Company: $107 million for medium- and heavy-duty EV infrastructure through the Power Your Drive for Fleets program[22] and $43 million for light-duty EV infrastructure through the Power Your Drive extension program.[23]

17 Senate Bill 350 Clean Energy and Pollution Reduction Act of 2015. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350

18 CPUC Decision 18-05-040, May 2018. http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M231/K739/231739515.pdf

19 CPUC Decision 18-05-040, May 2018, http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M231/K739/231739515.pdf

20 Ibid.

21 CPUC Decision 20-08-045, August 2020. https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M346/K230/346230115.PDF

22 CPUC Decision 19-08-026, August 2019. http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M311/K550/311550050.pdf

23 CPUC Decision 21-04-014, April 2021. https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M378/K429/378429298.PDF

As of February 2022, $1.45 billion in ratepayer funding has been allocated to support behind-the-meter ZEV infrastructure programs.[24] Additionally, as a result of AB 841, (Ting, Chapter 372, Statutes of 2020) to-the-meter infrastructure costs to support separately metered EV charging are socialized to ratepayers via the IOUs EV Rules. IOU funding for EV charging infrastructure investments on the customer side of the electric meter is neither ongoing nor predictable. In addition, allocating ratepayer funding for ZEV infrastructure may increase electric rates.

Other Revenue Sources

Recent California state budgets have included one-time investments for ZEV infrastructure from the General Fund, Cap-and-Trade program, and Cap-and-Invest program. However, these funding sources are not consistent, dedicated, or predictable. Revenue can vary dramatically year to year and the state must balance funding needs and priorities.

Private investments are expected to provide the bulk of the investment necessary to build out California's ZEV infrastructure, under the right market, economic, and regulatory conditions. Yet state investment is still necessary to ensure the pace of adoption meets the urgency of the climate crisis and to encourage private investments in California. Private fleets and charging companies have many options of which states to make their investments. State investments must be consistent, dedicated, and predictable to attract matching private investment. Charging companies have consistently stated that factors such as predictable state funding impact their deployment decisions. AB 126 fee revenue provides consistent funding for ZEV infrastructure. While Cap-and-Invest and General Fund revenue investments have provided important catalysts and injection of funds to state programs, they lack predictability and consistency which is needed for long-term planning.

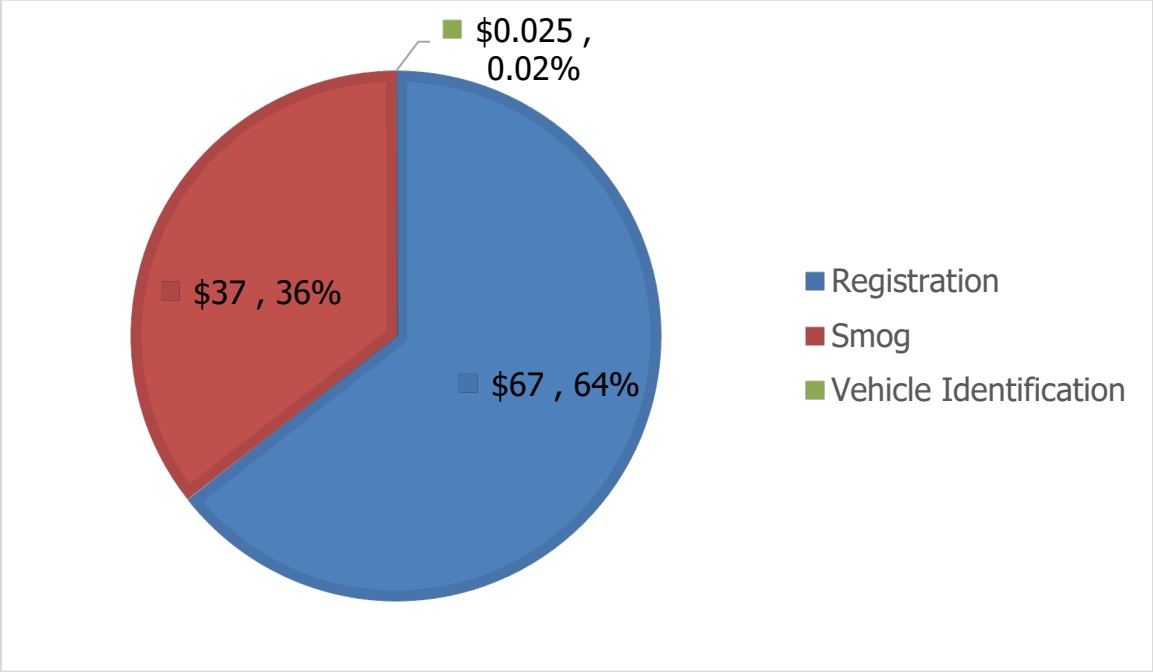
24 California Public Utilities Commission Energy Division Staff. 2022. "Energy Division Staff Proposal to Establish Transportation Electrification Funding Cycles and Statewide Behind-the-Meter Program." https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M453/K952/453952700.PDF

CHAPTER 3:
Alternative Fee Structure Options

The AB 126 fees are assessed on a flat basis regardless of vehicle weight or value. Further, they are not indexed for inflation. This chapter proposes three alternative means of assessing the AB 126 fees, using the same funding source. While this chapter proposes adjustments to the existing fees, Chapter 4 focuses on alternative fund sources that are not related to vehicle registration fee or smog fee. The potential economic equity impacts of these options are discussed in Chapter 5.

As shown in Figure 3, the vehicle registration fee comprises the majority of AB 126 fee revenue allocated to the CTP. It is followed by the smog fee which provides less revenue but is still a meaningful percentage of the funds that support the CTP.

Figure 3: AB 126 Fees Collected for CTP, 2023-2024 (in millions)



Source: CEC Staff, based on DMV data.

This chapter focuses on potential adjustments to the $2.00 vehicle registration fee component of the AB 126 fee that support the CTP. This is done to illustrate levers available to the Legislature to adjust CTP funding. This is purely a simplification to increase the readability of this report. The Legislature could apply the first three options presented below to the smog fee.

The cost of vehicle registration in California can range from $200 to over $1,000 per year[25] and is made up of several individual fees. These fees depend on several factors such as where in the state the vehicle is registered, the value of the vehicle, and the type of vehicle. The AB 126 fee is one component of this overall vehicle registration fee.

The $2.00 per vehicle level remains constant but the revenue accruing to the CTP is impacted by the number of vehicles registered per year. While the annual revenue collected from vehicle registration fees varies year to year, this chapter assumes that the AB 126 portion of the vehicle registration fee is $67 million per year.[26]

As an example of the components that make up the vehicle registration fee, for a $50,000 new car registered in Sacramento the CTP portion of the vehicle registration fee makes up less than 1 percent of the total registration fee. The various components of the vehicle registration fee are shown in Table 6.

Table 6: Components of the Vehicle Registration Fee

Fee component	Amount
Registration Base Fee	$74
California Highway Patrol Fee	$32
Vehicle License Fee	$108
Transportation Improvement Fee	$81
AB 126 fee (CTP)	$2
Total	**$297**

Source: CEC staff. Not all fee components are individually broken out.

Because AB 126 fees make up a small portion of the vehicle fees that they are embedded within, the alternative fee mechanisms proposed in this report are not expected to result in significant financial impacts to California vehicle owners.

This chapter examines three alternative means of funding ZEV infrastructure through the AB 126 vehicle registration fee (and potentially the smog fee):

- Index the AB 126 fee portion of the vehicle registration fee for inflation.
- Adjust the AB 126 fee portion of the vehicle registration fee based on vehicle weight class.
- Adjust the AB 126 fee portion of the vehicle registration fee based on vehicle value.

25 Department of Motor Vehicles. 2025. "Department of Motor Vehicles Statistics for Publication for the Period of January 1 Through December 31, 2024." https://www.dmv.ca.gov/portal/file/california-dmv-statistics-pdf/

26 This estimate was based on historical data provided by the California Department of Motor Vehicles.

As mentioned, the AB 126 fee portion of the vehicle registration fee raises approximately $67 million per year. The options proposed in this chapter are initially revenue neutral; that is, the options presented below are consistent with raising approximately $67 million per year. However, these changes could be applied among all AB 126 fees (not just vehicle registration fees) that collectively generate $175 million annually with some exceptions. Furthermore, the Legislature could adjust the revenue neutral scenarios to increase or decrease the level of funding for the CTP.

The data used to create the financial projections below were obtained from California state agencies including the DMV, CARB, and the CEC.

Option 1: Index the AB 126 Portion of the Vehicle Registration Fee for Inflation

The authorizing legislation either established or reauthorized the AB 126 fees as flat fees that do not adjust for inflation. Since AB 118 was first passed in 2007, inflation has increased by approximately 50 percent.[27] While the number of vehicle owners paying AB 126 fee portion of the vehicle registration fee has grown since 2007, not adjusting the AB 126 fee portion of the vehicle registration fee for inflation has caused the real value of this revenue per registration to continually decrease. Indexed to the approximately $100 million that was invested under the CTP in its first full fiscal year (2009-2010), that same amount would be worth just $66.5 million in real terms in 2025.[28]

This option proposes periodically adjusting the AB 126 fee portion of the vehicle registration fee to account for changes in inflation which would be consistent with other DMV fees.[29] This option is revenue positive in *nominal* terms but revenue neutral in *real* terms, because while the nominal value of the fee collected would increase, the value of the fee collected would remain constant. This is in contrast to current practice which is revenue neutral in nominal terms but revenue negative in real terms. This approach is consistent with many other Department of Motor Vehicle fees, which are adjusted for inflation.

If the Legislature chooses to index the AB 126 fee portion of the vehicle registration fee for inflation, the fees should be adjusted for inflation at regular intervals by using recognized standard measures of inflation like the U.S Consumer Price Index, for example.[30] This option could be implemented as a standalone change to the current AB 126 fee portion of the vehicle

27 U.S Bureau of Labor Statistics Data Tool. Accessed May 5, 2025. http://www.bls.gov/data/inflation_calculator.htm

28 This analysis ignores any increase in the number of drivers paying the vehicle registration fee.

29 *See* 13 California Code of Regulations Section 423.00.

30 The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

registration fee structure or it could be coupled with the alternative funding options proposed below.

Option 2: Set the AB 126 Portion of the Vehicle Registration Fee Based on Vehicle Weight

This option would adjust the AB 126 fee portion of the vehicle registration fee by establishing a tiered payment system where heavier vehicles pay higher fees. This option would also expand the types of vehicles required to pay the AB 126 fee portion of the vehicle registration fee by including medium- and heavy-duty vehicles, since only light-duty vehicles pay the AB 126 vehicle registration fee today.

CEC staff estimated how the AB 126 fee portion of the vehicle registration fee would have to be adjusted to raise the current $67 million per year under this option. This estimate was created using vehicle registration data provided by the DMV. The eight weight-based categories established by the DMV were compressed into three categories: light-, medium-, and heavy-duty vehicles. Staff then coupled this data with vehicle weight and the number of vehicle registrations associated with each vehicle weight designation type to determine the theoretical fees necessary to raise $67 million. See Table 7 below to see an example of how this fee structure could be implemented.

Table 7: Example of AB 126 Fee Based on Vehicle Weight

Vehicle Category[31]	Gross Vehicle Weight Rating (GVWR) in pounds	Estimated Number of Vehicles	Fee Example	Estimated Funds Collected (in thousands)
Light-duty	$\leq$ 10,000	29,860,000	$1.75	$52,255
Medium-duty	10,001 to 26,000	1,550,000	$8.00	$12,400
Heavy-duty	$\geq$ 26,001	250,000	$11.00	$2,750
Total		**31,660,000**		**$67,405**

Source: CEC staff based on DMV data.

With this option, the AB 126 fee portion of the vehicle registration fee would be charged to all registered vehicles in California and not just light-duty passenger vehicles which is currently the case. Because this option would increase the number of vehicles contributing to the funding target of approximately $67 million dollars, the AB 126 portion of the vehicle

31 Examples of vehicle categories include light-duty: passenger cars, SUVs and light pickup trucks; medium-duty: heavy-duty pickup trucks, large step vans and medium school buses; heavy-duty: transit and coach buses and long-haul tractor trucks.

registration fee paid by light-duty vehicles would decrease from $2.00 to $1.75 while imposing new fees on medium- and heavy-duty vehicles.

This option would see operators of medium- and heavy-duty vehicles pay higher vehicle registration fees than today. Some vehicle owners may drive medium-duty vehicles such as certain pickup trucks as their personal vehicles. These owners, for example, would then see their vehicle registration fee increase by $8.00.

Option 3: Set AB 126 Portion of the Vehicle Registration Fee Based on Vehicle Value

The current AB 126 fee portion of the vehicle registration fee is a uniform fee where all light-duty vehicle owners pay the same amount regardless of the value of the vehicle. Adjusting the structure of the AB 126 fee portion of the vehicle registration fee to account for vehicle value would enable an equity-based fee differential between those who have more expensive vehicles and those who have less expensive vehicles.

This option would align the currently flat AB 126 fee portion of the vehicle registration fee with the overall vehicle registration fee, which is partially determined by vehicle value. The DMV's current vehicle registration fee is based on the initial vehicle purchase price and an assumed value based on a rate of depreciation over time. A potential risk of this option is that vehicle value is self-reported following private party vehicle transfers, which incentivizes underreporting.

Table 8 provides an example of how the AB 126 fee portion of the vehicle registration fee could be adjusted to reflect vehicle value. Staff created this estimate using vehicle registration data and organized it based on an assumed distribution of vehicle values. Three cost categories were created: low value, medium value, and high value. The distributed data was then coupled with the current AB 126 fee portion of the vehicle registration fee total as a funding target to determine the fee amounts required for each vehicle designation to meet the funding target.

Table 8: Example of AB 126 Fee Based on Vehicle Value

Category	Vehicle Purchase Price, or Estimated Depreciated Value	Estimated Number of Vehicles (Passenger vehicles only)	Fee Example	Estimated Funds Collected (in thousands)
Low Value	$\leq$ $15,000	10,800,000	No fee	$0
Medium Value	$15,001-$50,000	14,400,000	$3.00	$43,200
High Value	$\geq$ $50,001	4,660,000	$5.00	$23,300
Total		**29,860,000**		**$66,500**

Source: CEC staff. Fees are based on the purchase price of a vehicle, or the estimated value based on the depreciation rate over time. The table is for illustrative purposes only and is based on generalized value estimates of the California population of passenger vehicles at the time of writing.

The current AB 126 fee portion of the vehicle registration fee is $2.00. Under this proposed option, vehicle owners with a low-value vehicle would not pay the AB 126 fee portion of the vehicle registration fee, thereby reducing their total vehicle registration fee by $2.00. Vehicle owners with vehicles classified as medium value would pay an AB 126 fee portion of the vehicle registration fee of $3.00, a fee increase of $1.00. Vehicle owners with vehicles classified as high value would pay an AB 126 fee portion of the vehicle registration fee of $5.00, a fee increase of $3.00. These fee increases would remain a small portion of the overall vehicle registration fees paid by vehicle owners today.

Revenue collected under this option could vary from year to year as vehicle sales prices and values shift. While vehicle prices tend to increase over time, if a shift towards lower cost vehicles occurs, such as during economic downturns, the revenue available to invest in ZEV infrastructure could decrease.

CHAPTER 4:
Alternative Funding Source Options

This chapter discusses two additional options for CTP funding. These options would reduce, eliminate, or complement the AB 126 fees by incorporating other funding sources for ZEV infrastructure including:

- Discretionary appropriations from GGRF
- New bond funding

No fee structures are associated with the options proposed in this chapter. Because of this, AB 126 fees are discussed collectively as opposed to focusing on only one AB 126 fee such as vehicle registration. Economic equity considerations for these approaches are discussed in Chapter 5.

Option 4: Supplement AB 126 Fees with Funding from Greenhouse Gas Reduction Fund

This option explores the potential to supplement AB 126 fees using discretionary investments from the GGRF to support ZEV infrastructure. GGRF is funded through proceeds of California's Cap-and-Invest emission reduction program. Cap-and-Invest is a market-based initiative that reduces statewide carbon emissions by using established regulatory carbon emission limits. Cap-and-Invest was reauthorized under AB 1207 (Irwin, Chapter 117, Statues of 2025). Entities that exceed regulatory emissions limits are required to purchase carbon credits. This creates financial incentives for high-polluting entities to reduce emissions while raising money that can be used to fund emission reduction technologies and market strategies.

GGRF is administered by CARB and generates several billion dollars per year. Funding has historically supported a variety of ongoing initiatives including high-speed rail, transit and intercity rail, affordable housing and sustainable communities, low-carbon transit operations, forest restoration and stewardship, and safe and affordable drinking water.[32]

Under the 2025 GGRF expenditure plan outlined in SB 840 (Limón, Chapter 121, Statues of 2025) there is no continuous appropriation for ZEV infrastructure. However, one-time discretionary investments may still be possible, subject to available funds and negotiations between the Administration and the Legislature. For example, the 2025 Budget Act includes a one-time $40 million discretionary allocation for medium- and heavy-duty ZEV infrastructure.

Although this option does not propose a dedicated or ongoing funding stream, it highlights the potential for periodic discretionary GGRF investments in ZEV infrastructure. However, while

32 Petek, Gabriel. February 2025. "The 2025-26 Budget: Cap and Trade Expenditure Plan." Legislative Analyst Office. http://lao.ca.gov/Publications/Report/4960

discretionary investments in ZEV infrastructure are important, they do not provide the long-term certainty of the AB 126 fees. Additionally, dedicating GGRF funding to ZEV infrastructure may require tradeoffs with other state priorities.

Option 5: Offset AB 126 Fees by Issuing General Obligation Bond

This option would replace or complement the revenue collected through AB 126 fees by using a state-issued general obligation (GO) bond to fund the $175 million currently obtained through AB 126 fees.

A GO bond is a loan which represents a debt security that is issued by state and local governments and used to fund large capital projects such as building roads, bridges, schools and various types of infrastructure development. The term "general obligation" means that the bond is not tied to a specific revenue stream like a revenue bond. For example, California's Proposition 4 was approved by voters in November 2024, and shows how this option could be implemented. Following the passage of Proposition 4, California will issue $10 billion in bonds to finance water, clean energy, and other environmental projects, which requires approximately $400 million per year to be repaid over the next 40 years. While Proposition 4 does not fund ZEV infrastructure, a future bond dedicated to ZEV infrastructure could be modeled after this approach.

A GO bond focused on ZEV infrastructure could be part of a larger request to voters in the state or a specific stand-alone proposition. This option has the potential to provide consistent funding for ZEV infrastructure in lieu of the current AB 126 fees.

Implementing a GO bond would require several procedural steps to implement and support from various state agencies such as the State Treasurer's Office and the Secretary of State's Office. Because the state must repay bond holders with interest, selecting this option means accepting ongoing fiscal impacts for an extended period.

CHAPTER 5:
Economic Equity Considerations

For the purposes of this report, economic equity refers to the fair treatment, meaningful involvement, and investment of resources through clean transportation programs, incentives, and processes for all Californians.[33] This definition of economic equity is adapted from the definition of equity used in the CEC *2023–2024 Investment Plan Update for the Clean Transportation Program.* This report focuses on the economic equity of the AB 126 vehicle registration fee and alternative funding mechanisms for ZEV infrastructure that may uniquely impact different population groups. While the discussion below focuses on the AB 126 vehicle registration fee, this analysis is intended to be representative of all AB 126 fees.

This analysis pays special attention to groups that have a heightened vulnerability to economic conditions including low-income individuals, those with a disability that complicates their ability to work, and older individuals who are on a fixed income.

The current AB 126 vehicle registration fee structure is a flat fee where passenger vehicle owners in California pay the same amount per vehicle registration. This makes it a regressive fee; that is, a fee that collects a proportionally greater amount of household income from those with lower incomes. This contrasts with progressive fees, where higher-income residents pay a higher portion of their income.

This chapter discusses the impact to economic equity for each proposed alternative funding mechanism. Impacts to businesses are also considered when applicable. This analysis assesses whether each option will likely have a generally negative, positive, or neutral economic equity impact for vehicle owners in California. Economic equity is complex and this report may not capture all the nuances or unintended consequences of each option.

Option 1: Adjust AB 126 Portion of the Vehicle Registration Fee for Inflation

Staff expect adjusting the AB 126 fee portion of the vehicle registration fee for inflation to have a neutral to negative impact on economic equity. This is because this option retains the current regressive structure of the fee while increasing the nominal value or maintaining the real value of the fee. Compared to the status quo it would increase the real value of the AB 126 fee portion of the vehicle registration fee paid by vehicle owners — since the real value of this fee per registration continually declines — especially in periods of high inflation. Despite this, the small amount of the AB 126 fee portion of the vehicle registration fee means that adjusting it for inflation is unlikely to have a significant impact on vehicle owners. Moreover, this option would keep constant the real value and real cost of the fee over time.

33 Tuggy, Benjamin. 2025. *2024–2025 Investment Plan Update for the Clean Transportation Program.* California Energy Commission. Publication Number: CEC-600-2024-047-CMF.

Option 2: Set AB 126 Portion of the Vehicle Registration Fee Based on Vehicle Weight

Staff expect that setting the AB 126 fee portion of the vehicle registration fee based on vehicle weight will have a neutral impact on economic equity. It will benefit vehicle owners of light-duty vehicles by reducing their vehicle registration fees while introducing the fees for owners of medium- and heavy-duty vehicles.

Extending the AB 126 fee portion of the vehicle registration fee to medium- and heavy-duty vehicles would impact businesses that deploy a significant quantity of large vehicles. This could indirectly increase the price of doing business in California and could disproportionately affect vehicle owners in rural areas who are in service jobs that require commercial trucks such as forestry, plumbing, construction, and landscaping. This could also result in a small fee increase for low-income individuals working in service jobs if these individuals pay their own vehicle registration fees and are unable to write it off as a business expense.

While this option would increase the cost to do business for companies that use medium- and heavy-duty vehicles, the fee is modest. In the Chapter 3 example, companies with medium-duty vehicles would see an increase of $8.00 per vehicle for registration fees. Companies with heavy-duty vehicles would see an increase of $11.00 per vehicle. When considered in context of the total amount of vehicle registration fees, which can range from a hundred to over a thousand dollars, the fee increases for vehicle owners and entities registering medium- and heavy-duty vehicles is minimal.

Option 3: Set AB 126 Portion of the Vehicle Registration Fee Based on Vehicle Value

Staff expect setting the AB 126 fee portion of the vehicle registration fee based on vehicle value to have a positive impact on economic equity because it will enable vehicle owners with low-value vehicles to pay lower fees. This is likely to benefit economically vulnerable populations because these populations may drive lower value vehicles. At the upper end of vehicle values, this option would increase vehicle registration fees by $3.00. Because of the minimal impact to the total cost of vehicle registration fees for vehicle owners registering medium- and high-value vehicles, staff did not find any meaningful risk to economic equity for those who would experience higher fees under this option.

Option 4: Supplement AB 126 Fees Through Funding from Greenhouse Gas Reduction Fund

Staff expect supplementing AB 126 fees with funding from GGRF to have a neutral impact on economic equity, as these are separate funding streams.

Option 5: Offset AB 126 Fees by Issuing General Obligation Bond

Staff expect offsetting AB 126 fees by issuing a new GO bond to have a neutral to positive impact on economic equity by replacing the regressive AB 126 fees with a bond payment that has a progressive taxation structure. This could benefit lower income vehicle owners who

would no longer have to pay the AB 126 fees and, depending on the taxation structure, could presumably repay a lower share of the future bond repayments.

CHAPTER 6:
Conclusion

The AB 126 fees play a vital role in supporting California's ZEV policies. ZEV infrastructure investments require consistent, dedicated, and predictable funding streams to provide certainty to private investors who are developing infrastructure in California. The AB 126 fees are currently authorized through July 1, 2035.

In accordance with Health and Safety Code section 44272.6, this report proposes alternative options for funding light-, medium-, and heavy-duty ZEV infrastructure. Three of the options involve adjustments to how the AB 126 fees are levied and two involve offsetting or complementing the AB 126 fees with alternative revenue sources. This report assesses the potential economic equity impacts of each option.

CEC staff do not make a recommendation about which option, if any, to adopt.

Glossary

AB – Assembly Bill.

CARB – California Air Resources Board.

CEC – California Energy Commission; also known formally as the California State Energy Resources Conservation and Development Commission.

CTP – Clean Transportation Program.

DMV – Department of Motor Vehicles.

EV – Electric Vehicle.

FCEV – Fuel Cell Electric Vehicle.

GHG – Greenhouse Gas.

GGRF – Greenhouse Gas Reduction Fund.

GO Bond – General Obligation Bond.

SB – Senate Bill.

ZEV – Zero-Emission Vehicle.

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