The 2023-24 Budget:
Proposed Reauthorization of AB 8 Vehicle Fees

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SUMMARY

In this brief, we assess the Governor's proposal to extend the sunset of certain-vehicle related fees that support clean transportation activities. Fees that are scheduled to sunset on January 1, 2024—often referred to as AB 8 fees—generate revenues totaling about $175 million annually, which are used to support three different programs that encourage adoption of zero-emission vehicles (ZEVs) and upgrades to cleaner vehicle technology. (While these charges are commonly referred to as fees, under the State Constitution they qualify as taxes, and therefore will require a two-thirds vote of the Legislature to extend.) While the associated fee levels are modest, vehicle registration fees in California already are quite high compared to other states. In light of significant policy and funding changes to support ZEVs and cleaner transportation since these fees were last reauthorized in 2013, we recommend the Legislature think carefully about how the revenues complement existing efforts and how essential they are to achieving state goals given the costs they represent to households. Should it choose to reauthorize AB 8 fees, the Legislature could consider changing how the funds are used to support different clean transportation programs, or fund entirely different activities with the revenues, depending on the state's highest priorities.

Background

Vehicles Are a Major Source of Greenhouse Gas (GHG) Emissions and Air Pollution. The state has undertaken a variety of steps to try to limit the magnitude of climate change and reduce GHG emissions. Transportation is the largest single source of GHG emissions—responsible for about 40 percent of total GHG emissions overall, with 25 percent of the total coming from passenger vehicles. This makes vehicles a key area of focus for achieving GHG reductions. Additionally, vehicles—particularly heavy-duty trucks—are major sources of air pollution. Numerous counties in the state are out of attainment with federal air quality standards, and several counties in the Central Valley and Southern California are classified as extreme non-attainment communities. Air pollution from mobile sources is responsible for about 80 percent of nitrogen oxide emissions and 90 percent of diesel particulate matter emissions, both of which are harmful to human health. Communities with larger percentages of low-income households and people of color are disproportionately exposed to air pollution.

AB 8 Fees Include Various Vehicle-Related Taxes. Chapter 750 of 2008 (AB 118, Núñez) established several different vehicle-related fees that primarily support climate and air quality programs. Chapter 401 of 2013 (AB 8, Perea) extended these fees until January 1, 2024. Throughout this brief, we refer to the vehicle charges imposed by AB 8 as "fees," which is generally consistent with how they are characterized in statute. However, under the State Constitution, these charges qualify as taxes. These fees include an annual smog abatement fee for vehicles six years old or less ($8), an annual vehicle registration fee ($3), an annual vehicle identification fee ($5), and a vessel registration fee ($20 every other year). These vehicle fees are only charged for light-duty passenger vehicles and, in the case of the vessel fee, boats. (These numbers reflect the share of these fees that go to AB 8 programs; the state also charges some additional vehicle fees that are not reflected here.)

Fee Revenue Supports Five Vehicle Emissions-Related Programs. The revenue from these fees supports five environmental and clean transportation programs, most of which are targeted at mitigating climate change and improving air quality. The amounts shown reflect approximate AB 8 annual revenues, based on statutory formula allocations.

- ***Clean Transportation Program (CTP, $110 Million).*** The CTP program, administered by the California Energy Commission, provides grants to accelerate development and deployment of clean vehicles, including ZEV fueling infrastructure, alternative vehicle technologies, and alternative fuels. According to the administration, about 50 percent of funded projects are located in low-income or disadvantaged communities experiencing disproportionate levels of pollution.
- ***Carl Moyer Program ($50 Million).*** This joint state and local program provides financial support for early vehicle retirement and cleaner-than-required equipment. The program largely focuses on reducing criteria and toxic air emissions from heavy-duty diesel engines. It is administered by the California Air Resources Board (CARB) and local air districts.
- ***Waste Tire Program ($35 Million).*** This program, administered by the California Department of Resources Recycling and Recovery, supports permitting and enforcement activities to ensure tires are stored and transported safely. It also funds tire recycling and market development activities.
- ***Enhanced Fleet Modernization Program (EFMP, $33 Million).*** The EFMP provides subsidies to retire older, high-polluting vehicles and replace them with newer vehicles, with higher subsidies for low-income households. The Bureau of Automotive Repair (BAR) implements the scrap-only portion of the program statewide, which receives about 90 percent of the funds, through its Consumer Assistance Program. Under the program, low-income consumers are eligible for a $1,500 incentive to retire higher-polluting older vehicles at a BAR-contracted dismantler. CARB administers the scrap-and-replace portion of EFMP, which provides a retirement incentive and additional compensation towards the purchase of a cleaner hybrid or zero-emission replacement vehicle. Participants must make 400 percent or less of the federal poverty level (FPL) to qualify for the scrap-and-replace option.
- ***Air Quality Improvement Program (AQIP, $29 Million).*** AQIP is a mobile source incentive program that focuses on reducing criteria pollutants and diesel particulate emissions. In recent years, CARB has allocated these revenues to the Truck Loan Assistance Program, which helps small-business fleet owners secure financing for cleaner truck upgrades in order to meet regulatory requirements. To be eligible, program participants must earn less than 225 percent of the FPL annually.

Portion of Fees Scheduled to Expire at End of 2023. In 2022, the Legislature enacted Chapter 355 (AB 2836, E. Garcia), which extended the portion of the AB 8 fees that support the Carl Moyer Program and the Waste Tire program until 2034. The portion of the fees that supports the three remaining programs—AQIP, EFMP, and CTP—however, has not been extended, and is scheduled to sunset on January 1, 2024. **Figure 1** displays the annual fees that are scheduled to sunset and how they

Figure 1

Allocation of Sunsetting AB 8 Fees by Program

(In Dollars)

Fee	AQIP	CTP	EFMP	Totals
Vessel Registration Fee[a]	$10.00	$10.00	—	$20.00
Smog Abatement Fee[b]	4.00	4.00	—	8.00
Vehicle Identification Fee	2.50	2.50	—	5.00
Vehicle Registration Fee	—	2.00	$1.00	3.00
Totals	**$16.50**	**$18.50**	**$1.00**	**$36.00**

[a] These fees are applied for boat registrations and are charged every other year rather than annually.
[b] Applies to vehicles six years old or less.

AB 8 = Chapter 401 of 2013 (AB 8, Perea); AQIP = Air Quality Improvement Program; CTP = Clean Transportation Program; and EFMP = Enhanced Fleet Modernization Program.

currently are allocated across programs. As shown, the fees represent a total cost of up to $16 annually per vehicle for a typical vehicle owner and $20 per vessel every other year for boat owners.

Governor's Proposal

Proposes Reauthorization of Vehicle Fees Set to Expire. The Governor proposes to extend authorization for the sunsetting AB 8 fees from January 1, 2024 through 2035. Because these fees are constitutionally a tax, the extension would need to be approved by a two-thirds vote of the Legislature. Under the proposal, the fees would be kept at existing rates and continue to generate roughly the same level of revenues, estimated to be about $175 million annually. The proposal would continue to designate fee revenue for the same programs it currently supports: CTP, AQIP, and EFMP.

Proposes Three Somewhat Minor Eligibility Changes for CTP. The Governor also proposes to slightly modify which types of projects and entities would be eligible to receive funding grants from the CTP. First, the proposal would limit eligibility for CTP funding to zero-emission technologies. (CTP historically has funded both low-emission and zero-emission technologies, although has begun to prioritize the latter in recent years.) Second, the proposal would modify CTP's existing statute to allow for U.S. Department of Energy national laboratories to receive awards under the program. Third, the proposal would expand the definition of tribes that may receive funding through the program to all California tribes, rather than only federally recognized tribes.

Assessment

Proposal Would Require Californians to Continue Paying Existing Taxes. In concept, it is reasonable for the state to have drivers bear some of the costs of efforts to reduce the impacts of mobile emissions, given they represent a key source of the resulting pollution and GHG emissions. Moreover, continuing to charge the AB 8 fees would not represent a new cost to or increase in taxes for vehicle owners, but rather maintain existing, relatively modest levels ($8 in annual registration fees and $8 in annual smog abatement fees for cars six years old or less). However, vehicle owners essentially already pay an additional fee to help mitigate pollution and reduce GHG emissions resulting from the cap-and-trade program, which adds about 22 cents to the cost of each gallon of gas. (This takes into consideration the costs that fossil fuel companies—covered under the cap-and-trade program—add to each gallon of gas, reflecting their program compliance costs that they choose to pass on to customers.) Moreover, although AB 8 fees are modest, they represent a direct cost to vehicle owners—including to lower-income households, which are more likely to be negatively affected by higher registration prices. California vehicle owners already pay high registration fees compared to other states and have experienced significant increases in the past decade. For example, average total annual fees paid per vehicle have increased from $143 for automobiles in 2013 to $245 in 2020, not including air quality fees such as the smog fee. Given these trends, together with inflationary pressures and the exceptionally high cost of living in California, it will be important for the Legislature to carefully consider how important AB 8 revenues are to meeting the state's goals and whether they are worth the costs they place on households.

Significant New Policy Goals Since AB 8 Fees Were Enacted and Reauthorized... The state has adopted new, more ambitious GHG reduction goals since the AB 8 fees were reauthorized in 2013. For instance, Chapter 249 of 2016 (SB 32, Pavley) updated the state's GHG reduction limit from 1990 levels by 2020 to 40 percent below 1990 levels by 2030. Chapter 337 of 2022 (AB 1279, Muratsuchi) requires the state to achieve net-zero GHG emissions by 2045. In addition to these goals, the administration has introduced new regulations to promote ZEV adoption. The Advanced Clean Cars II rule, adopted by CARB in 2022, requires 100 percent of new cars and light-duty trucks sold in California to be ZEVs or hybrid-electric by 2035. The proposed Advanced Clean Fleets rule, which CARB anticipates adopting this spring, would require all new trucks and buses sold to be ZEVs by either 2036 or 2040 (CARB has not yet decided which year). The state also has undertaken numerous efforts to improve air quality, especially in communities that are out of attainment with federal air quality standards.

Taken together, the challenge of meeting ambitious goals, carrying out regulatory requirements, and addressing continuing air quality problems may provide some rationale for a continued need for AB 8 fee revenues.

…But Also Significant New Other Sources of Funding to Support Those Goals. While the state's goals have evolved notably since the Legislature enacted AB 118 and AB 8, so too have the sources and amounts of funding to improve air quality and vehicle emissions. For example, cap-and-trade auction revenues that flow into the Greenhouse Gas Reduction Fund (GGRF) have increased from $257 million in 2012-13 to more than $3 billion annually in recent years. Much of this funding has been allocated to mobile source emissions reduction programs, including "AB 617" community air pollution reduction efforts as well as various clean transportation programs. The state also committed roughly $10 billion over five years for ZEV programs, primarily from the General Fund, in the 2021-22 and 2022-23 budgets. Although the Governor's 2023-24 budget proposes making some reductions to this funding, it would maintain the significant majority. In addition to these state investments, recent federal spending bills provided considerable funding to support ZEVs and other clean transportation efforts. Federal programs include tax incentives for households to purchase ZEVs, grants for charging infrastructure, funding for electric buses and truck electrification, and funding to promote cleaner vehicle technologies.

Extending AB 8 Fee Revenues Could Provide Reliable Funding Source and Help Offset Potential Budget Reductions. Though the state's commitments of General Fund and GGRF revenues are significant, these sources are not consistently reliable into the future. Should the Legislature believe deeper investments in clean transportation efforts are necessary through 2035, reauthorizing the AB 8 fee revenues could provide a consistent funding source without raising new taxes or fees. Moreover, extending these fees could help the Legislature continue to pursue its goals at the same time it needs to address the state's current budget problem. For example, the Legislature could opt to reduce General Fund expenditures from the ZEV package for similar activities currently being supported by AB 8 fee revenues. While this would result in a net reduction to ZEV program spending, it could allow the Legislature to achieve General Fund savings while feeling confident that some level of its desired activities will still be conducted.

Potential Reauthorization Presents Opportunity to Consider Highest-Priority Use of Funds. When initially authorized, these fees were intended to support then-emerging lower-emission/ZEV technologies and help transition car owners to less-polluting vehicles. The landscape of ZEV adoption and other clean transportation incentive programs has changed significantly since that time, however, with greater consumer demand, more available incentives for purchasing ZEVs, and expanded availability of infrastructure to support them. For example, about 20 percent of all new cars sold in California in 2022 were ZEVs (compared to about 10 percent in 2020), and there are currently about 80,000 ZEV chargers in California. Research suggests roughly half of the households that receive an incentive to purchase a ZEV would have purchased one anyway, revealing the extent to which the ZEV market has matured and thus may not need as many government incentives to further develop compared to when these fees were last authorized. Therefore, should the Legislature determine that AB 8 fee revenues still are essential for meeting the state's clean air and GHG reduction goals, it may also want to reconsider the highest-priority uses for the funds to ensure they are being used effectively to achieve desired outcomes. For example, the Legislature could consider:

- ***Revising the Focus of Existing Programs.*** As discussed earlier, the Governor is proposing some minor eligibility changes for CTP. The Legislature could consider additional revisions to the current AB 8-funded programs that would allow them to better support the state's GHG and air quality goals. For example, new state regulations will promote greater adoption of medium- and heavy-duty ZEVs. Given that this is already the direction in which the state is heading, rather than using AQIP AB 8 funds to support purchases of trucks with traditional combustion engines (as is allowed under current program rules), the Legislature could consider requiring AQIP to focus exclusively on upgrades to ZEVs. In addition, the Legislature could consider adopting statutory changes to further modify the focus of CTP. For instance, the administration has reported that about 50 percent of funded projects have been located in low-income or disadvantaged communities. The Legislature could require the program to further prioritize these communities, such as by adding a focus on multiunit dwellings, given that existing chargers are more heavily located in affluent areas. The Legislature could also consider requiring CTP investments to support newer, more emergent technologies such as hydrogen charging and medium- and heavy-duty chargers, which are less prevalent than passenger vehicle chargers but will be needed as more hydrogen-powered and large ZEVs enter the market.

- ***Funding Different Clean Vehicle Programs and Activities.*** The Legislature also could fund a different mix of programs and activities to ensure AB 8 funds are used to strategically complement other ZEV activities. For example, AB 8 fee revenues could be used to support more ZEV heavy-duty truck and bus vouchers, which are one of the most cost-effective mobile source programs for reducing GHG emissions.
- ***Using the Funds for Other Purposes.*** The Legislature also could extend these fees but use them for other budgetary purposes, such as to (1) help the balance of the Motor Vehicles Account (MVA); (2) support other clean air or climate activities; or even (3) direct them for other, non-vehicle-related funding priorities, given the state budget problem. (As we describe in a separate publication, the MVA, which receives revenue from vehicle registration and other driver-related fees to primarily support the California Highway Patrol and Department of Motor Vehicles, is currently experiencing shortfalls.) This third option would be a departure from the original intent and longstanding usage of these funds, but is an available alternative given these are taxes and not fees.

Legislature Could Consider Restructuring Fees. The Legislature also could consider restructuring the way these fees are charged. For example, one option would be to adopt a more progressive structure that takes vehicle value into consideration. Some other transportation fees—such as the Transportation Improvement Fee, which funds road improvements—vary charges based on the value of the vehicle. Should the Legislature take this approach, it could help reduce some of the negative impacts on low-income households and create a more equitable structure. However, depending on how it was structured, such an approach likely would increase the cost burden for some other vehicle owners and might generate a different amount of overall revenue. In addition, AB 8 fee revenues are collected from passenger light-duty vehicles, but about half of the fee revenues are used to support programs that target heavy-duty vehicles. Another option the Legislature could consider is to also charge these fees to heavy-duty vehicle owners, given that such vehicles cause air pollution and GHG emissions at an even greater level than passenger vehicles and currently are an area of focus for expenditures of this funding.

Recommendations

Consider Whether AB 8 Fee Revenues Still Are Essential to Meeting State Goals. We recommend that the Legislature weigh whether AB 8 revenues still are vital to helping the state pursue its clean air and GHG emission reduction goals, given the continued—albeit modest—tax burden they represent for California vehicle owners. Significant changes in policies and funding for ZEVs and clean transportation have occurred since the fees were last reauthorized in 2013. While the state's desire to pursue more aggressive goals could argue for a continued need for the revenues, significant other funding sources have become available to help support those efforts. As part of its deliberations, we recommend the Legislature consider whether the state needs a consistent and ongoing fund source along with the significant, but limited-term, General Fund, GGRF, and federal funds for these purposes. We also recommend the Legislature assess the merits of directing AB 8 fee revenues to help it solve the state's current budget problem, such as by using them for some ZEV programs and making corresponding General Fund reductions.

If Fees Are Reauthorized, Consider Highest Priorities for Funding. Much has changed since these fees were last reauthorized in 2013—a more robust ZEV market, greater funding for ZEVs, and an increased need to support lower-income communities in making the vehicle transitions the state is now requiring. Should it choose to reauthorize AB 8 fees, we recommend the Legislature consider its highest-priority goals for the associated funding. The Legislature could consider revising existing programs, supporting a different mix of clean vehicle efforts, or using the funds for other budgetary priorities.

Consider Restructuring Fees. Unlike some other vehicle registration fees, AB 8 fees are set at equal levels regardless of the cost of the vehicle. If the Legislature decides to reauthorize the fees, it also could consider restructuring them, such as to require more expensive vehicles to pay a higher rate than lower-cost vehicles. This could create a more progressive structure and ease cost burdens for some lower-income vehicle owners, though it would represent a notable shift in policy approach and could change the amount of annual revenues generated. The Legislature could consider also charging fees for heavy-duty vehicles, as larger diesel vehicles exacerbate air pollution and GHG emissions at greater rates than light-duty passenger vehicles. Moreover, this category of vehicle owners currently receives significant benefits from AB 8 program expenditures.

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