

Protecting California's State-Generated Transportation Revenue in a World of Electric Vehicles

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The California Legislature faces a critical series of choices about how to maintain state funding for California's transportation system in the coming decade. California's aggressive transition from gasoline and diesel powered vehicles to electric vehicles, which is essential to meeting state climate goals, will also decimate key revenue sources the State relies on to support state and local transportation systems. This brief presents an overview of the funding challenges and opportunities for how policymakers could re-establish a sustainable stream of revenue for transportation.

The great majority of the revenue that the State of California raises directly to spend on improving and maintaining surface transportation systems comes from a set of five taxes on the use and ownership of motor vehicles. These are a set of three taxes on gasoline and diesel fuel, as well as two registration fees on light-duty vehicles (Appendix A). Collectively, the five taxes are estimated to raise \$13 billion for FY 2025-26 (LAO, 2025). The amount of revenue that each tax will raise in coming years will be directly impacted by the rate at which California's vehicle fleet transitions from gas and diesel vehicles to electric vehicles and other zero-emission vehicles (ZEVs).

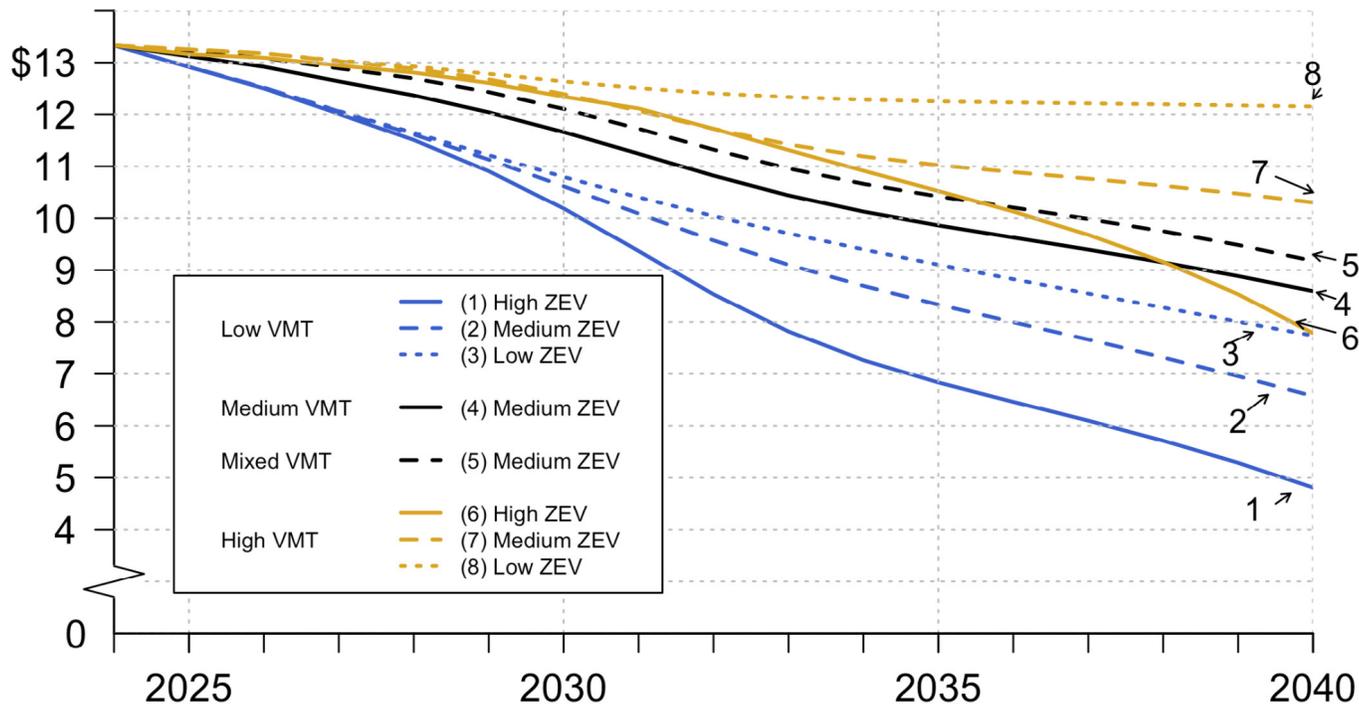
In 2024, researchers at the Mineta Transportation Institute (MTI) projected revenue through 2040 for those five taxes under eight scenarios. The scenarios illustrate how the amount of revenue collected will depend on different levels of ZEV adoption, as well as changes in vehicle or fuel costs, state population growth trends, vehicle ownership rates, and trucking industry operations. The scenario approach was chosen to help legislators identify revenue policies that can achieve desired outcomes even under varying conditions. (See [MTI 2024](#), Chapter 2, for complete details about the scenarios.)

Figure 1 illustrates the total revenue that the MTI study projected California would generate under the different scenarios. Key findings include:

- It is impossible to project future revenues with any confidence for more than a few years into the future. The annual revenue raised under the eight scenarios diverges steadily over time. By 2040, annual revenue ranges from \$4.8 to \$12.2 billion.
- The state may lose substantial revenue if the taxes and fees are not changed and/or replaced soon. As early as 2027, California could be losing more than a billion dollars annually compared to 2024 revenue.
- A fast transition from gas and diesel to electric vehicles would significantly reduce annual revenue—but falling VMT could have an equally large impact.
- Fuel taxes currently provide most of the revenue from the five taxes, but by 2040 vehicle registration fees may provide the majority of the revenue.

Figure 1. Projected Total Revenue under the Eight Scenarios (Billions of 2024 Dollars)

Note: ZEV = zero-emission vehicle; “VMT” = vehicle miles traveled



It is recommended that the Legislature consider the following policy options when developing new revenue sources to replace fuel tax revenues:

- Set in place new revenue sources for replacing lost fuel tax revenues within a few years.
- Rely on a package of taxes and fees charged against different tax bases, similar to the state’s current reliance on both fuel taxes and vehicle ownership taxes.
- Consider adopting mileage fees and/or taxes on the electricity used to charge electric vehicles.
- Regardless of what revenue alternative(s) are selected, the rates should be indexed to inflation to retain purchasing power over time.

To Learn More

From the Mineta Transportation Institute:

- [How Will California’s Electric Vehicle Policy Impact State-Generated Transportation Revenues? Projecting Scenarios through 2040](#) (2024)
- [Pay-As-You-Go Driving: Examining Possible Road-User Charge Rate Structures for California](#) (2023)

- [*How Do California's Local Governments Fund Surface Transportation? A Guide to Revenue Sources*](#) (2021)

Other resources:

- California Legislative Analyst's Office (LAO), [*The 2025-26 California Spending Plan*](#) (October 15, 2025)
- California Legislative Analyst's Office (LAO), [*Overview of Transportation Funding in California*](#) (March 2, 2025)
- Caltrans, [*Fiscal Year 2025-2026 California Transportation Financing Package*](#) (April 17, 2025)

Appendix A: Sources of Transportation Revenue in California

Every year, the State of California and its 482 cities, 58 counties, and numerous special districts piece together the puzzle of their transportation budgets from a complex mix of revenue raised at every level of government. These range from federal transfers to locally generated revenue such as local-option sales taxes and development impact fees. The most recent estimate of total revenue for transportation from the Legislative Analyst's Office is \$44 billion for FY 2023-23 (LAO, 2025).

The state itself raises roughly one third of this revenue, and the great majority of that — estimated at \$13 billion for FY 2025-26 — comes from a set of five taxes and fees on the use and ownership of motor vehicles, shown in Table A1 (LAO, 2025).

Table A1. Rates for California State Taxes and Fees on Motor Vehicle Fuel and Light-Duty Vehicles

Tax or fee	Rate as of July 1, 2025*	Estimated revenue, FY 25-26
Motor fuel taxes		
Gasoline excise taxes	\$0.612 per gallon	\$7.9B
Diesel excise tax	\$0.466 per gallon**	\$1.6B
Diesel sales tax	13.00%	\$1.1B
Light-duty vehicle fees (annual)		
Transportation Improvement Fee (TIF)	\$32 - \$227 per vehicle	\$2.5B
Road Improvement Fee (RIF)	\$118 per vehicle	\$0.2B
TOTAL		\$13.3B

Sources: Caltrans, Fiscal Year 2025-26 California Transportation Financing Package (April 17, 2025); California Department of Motor Vehicles, "Registration Fees" and "Sales Tax Rates for Fuels"

* The rates are to be adjusted for inflation for the gasoline and diesel excise taxes, the RIF, and the TIF.

** The state assesses its gasoline tax in three parts: the Base Excise Tax of 22.0¢ per gallon, the SB 1 Excise Tax of 14.7¢ per gallon, and the State Incremental Excise Tax of 21.2¢ per gallon.

Appendix B: Projections by Individual Tax from the MTI Study

This appendix presents two figures that illustrate how each of the five taxes is projected to perform through 2040. Figure B1 shows the annual projected revenue for each tax individually. Figure B2 shows the proportion of overall revenue that each tax would generate annually.

See the [MTI report](#), Chapter 2, for complete details about the eight scenarios for which revenue is projected.

Figure B1. Projected Revenue by Tax, by Scenario (2024 dollars)

Notes: The 8 scenarios vary by annual statewide vehicle miles traveled (VMT) and the number of zero emission vehicles (ZEVs). See the MTI 2024 report for complete details on the scenarios.

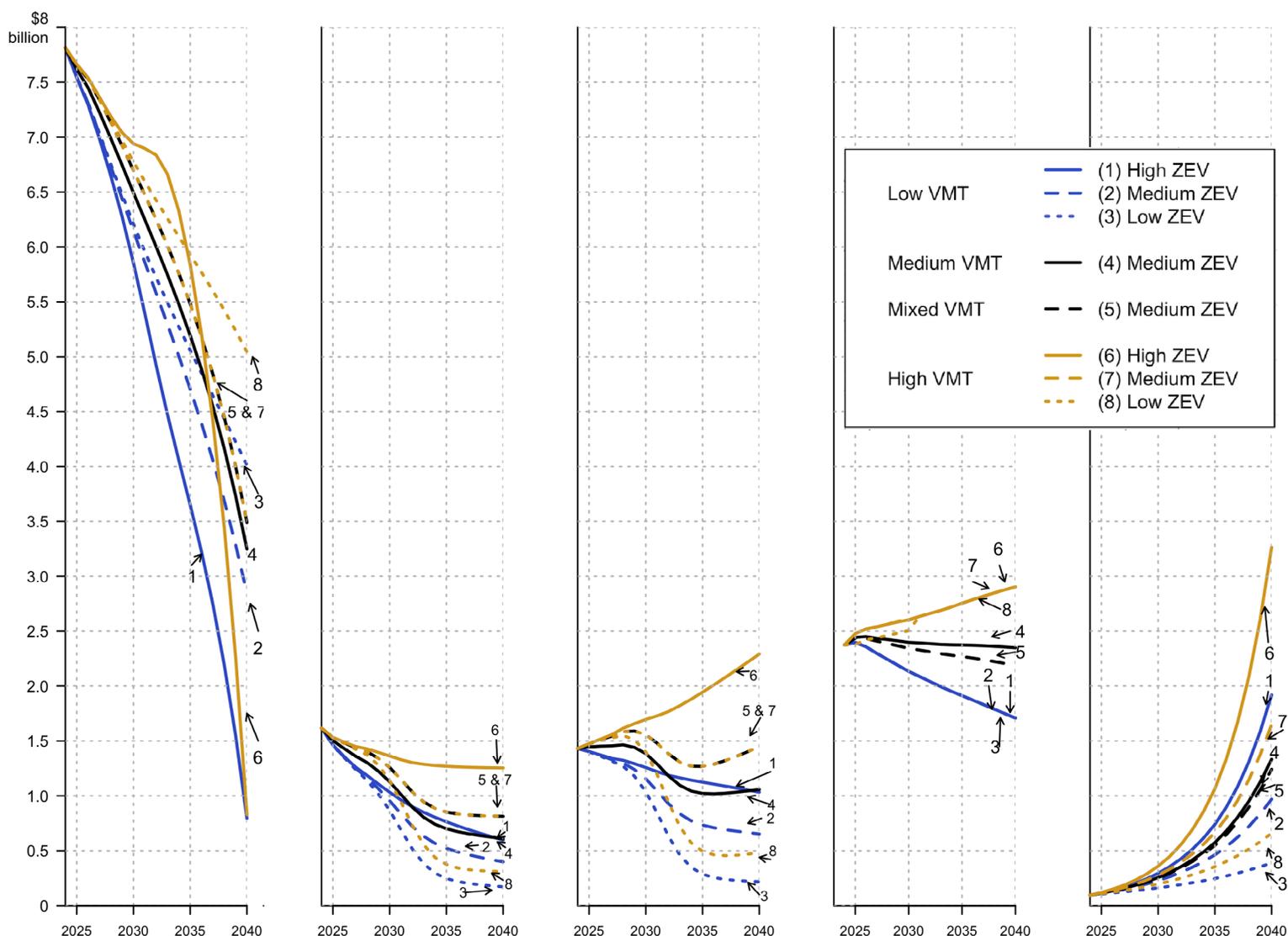
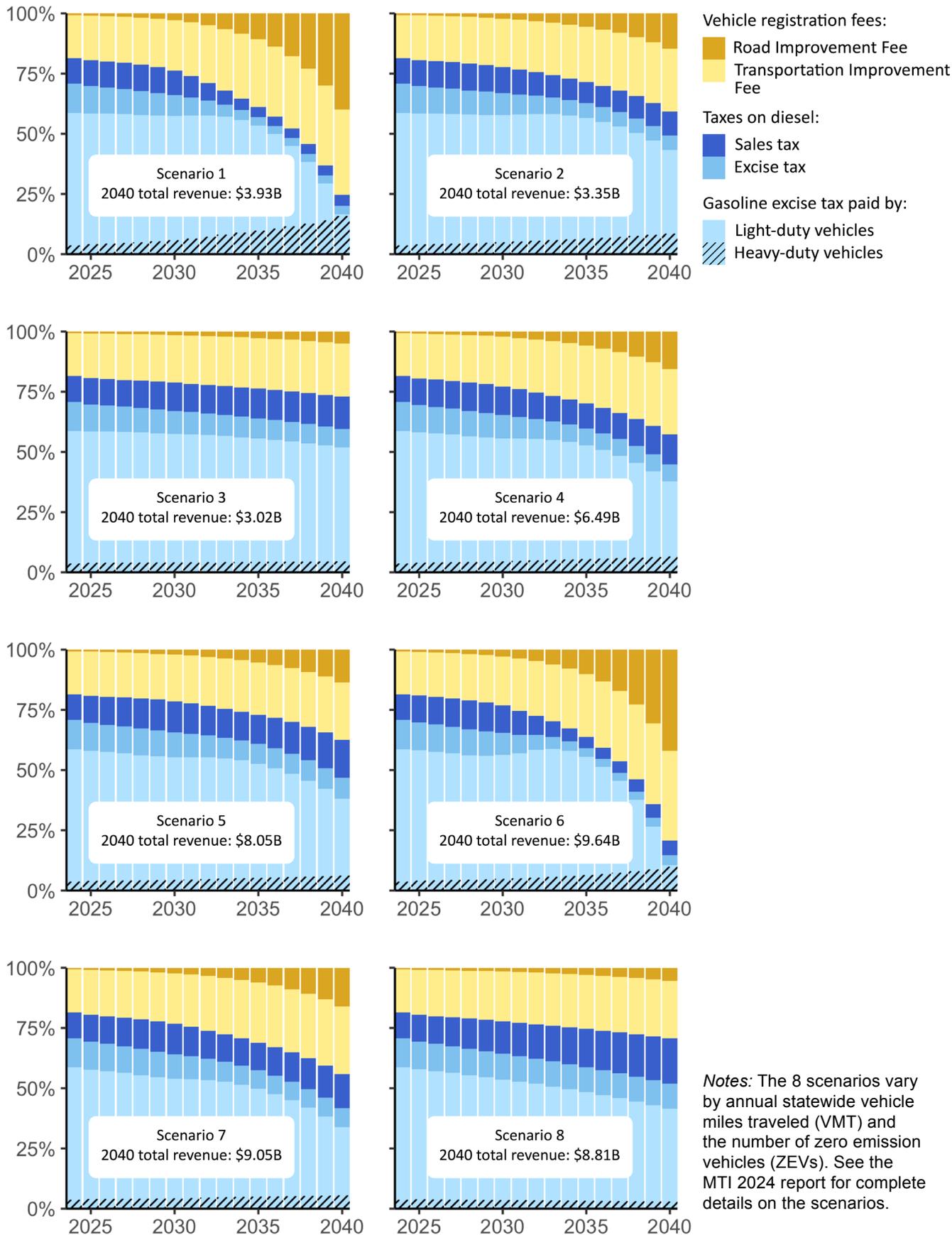


Figure B2. Proportion of Total Projected Revenue from Each Tax & Fee, by Scenario



Notes: The 8 scenarios vary by annual statewide vehicle miles traveled (VMT) and the number of zero emission vehicles (ZEVs). See the MTI 2024 report for complete details on the scenarios.