

Proposed Zero-Emission Vehicle Incentive Program

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SUMMARY

The Governor proposes a cumulative total of \$200 million from the Greenhouse Gas Reduction Fund (GGRF) and the Air Pollution Control Fund (APCF), and associated budget trailer legislation, to create a new point-of-sale incentive program for light-duty zero-emission vehicles (ZEVs). The proposed new program aims to incentivize ZEV adoption by lowering the vehicles' purchase price. Given other existing state programs aimed at reducing greenhouse gases (GHGs) and transitioning the state to cleaner transportation fuels, we find that the proposed incentive program does not address an urgent and critical need. Moreover, while fully evaluating the proposal is impossible given the lack of details on the program's structure, the limited and one-time nature of the proposed funding makes it unlikely to have large effects on the marketplace or the state's progress in meeting its ZEV adoption goals. Finally, we have concerns that the creation of a new program adds complexity and potential duplication. In light of these factors and the constrained state budget condition, we recommend the Legislature reject the proposal.

Background

State Trying to Meet Ambitious Climate Goals and Strict Air Pollution Requirements.

California has adopted a variety of goals related to reducing GHGs. Additionally, the state must meet requirements related to regional and local air pollution. These include:

- ***State GHG Reduction Targets.*** California has established statutory goals for reducing statewide GHG emissions—down to at least 40 percent below the 1990 level by 2030, and to at least 85 percent below the 1990 level by 2045.
- ***Federal Air Quality Standards.*** California has two regions with the most critical air quality challenges in the nation—the South Coast Air Basin and the San Joaquin Valley. The regions need to make substantial reductions in criteria pollutants from all sources—specifically, nitrous oxides (NOx) and fine particulate matter—to meet federal air quality standards.

Administration Set Ambitious ZEV Goals, Which Federal Actions Have Called Into Question. Mobile sources—including light-, medium-, and heavy-duty vehicles—contribute to California's GHG emissions and air pollution.

For example, light-duty vehicles represent about 28 percent of statewide GHG emissions and 7 percent of statewide NOx emissions. To help the state meet its climate goals and air quality requirements, the Governor signed an [Executive Order](#) in 2020 establishing various ZEV goals, including that 100 percent of in-state sales of new passenger cars and trucks be zero emission by 2035. The California Air Resources Board (CARB) subsequently adopted a regulation, Advanced Clean Cars II (ACC II), which required manufacturers to sell a growing share of their vehicles as ZEVs in alignment with state goals. In May 2025, the U.S. Congress passed a resolution rescinding the federal waiver under which California had been allowed to adopt ACC II. While State Attorney General Bonta subsequently filed a lawsuit challenging the legality of the congressional revocation of this federal waiver, the state's ability to pursue its ZEV adoption goals through ACC II requirements remains limited, at least until the lawsuit is resolved or federal policies change.

State Has Made Significant Progress Encouraging Light-Duty ZEV Adoption. The state has made notable progress in pursuing its ZEV adoption goals in recent years, with the share of new passenger vehicles sold in California that

are ZEVs climbing from 8 percent in 2020 to over 20 percent in 2025. California significantly outpaces the nation in ZEV adoption. Nearly 30 percent of all ZEV passenger vehicles sold nationwide are in California, while the state is only home to about 12 percent of the U.S. population.

Federal Light-Duty Incentive Program Expired in Late September 2025. In recent years, the federal government has offered financial incentives to encourage ZEV purchases. Most recently, the federal Inflation Reduction Act included a tax credit of up to \$7,500 per vehicle for the purchase of new light-duty ZEVs and up to \$4,000 per vehicle for the purchase of used light-duty ZEVs. In July 2025, the President signed H.R. 1—also known as the One Big Beautiful Bill Act—which eliminated these ZEV purchase incentives as of the end of September 2025. Since the passage of H.R. 1, some vehicle manufacturers have signaled that they expect to scale back their previously planned production of ZEVs.

State Still Has Various Existing Programs to Encourage ZEV Adoption. Despite the loss of federal funds, the state still supports various programs to subsidize the purchase of ZEVs. For example, in recent years, the state has supported the Driving Clean Assistance and regional Clean Cars 4 All (CC4All) programs through periodic budget appropriations. These programs provide income-qualified households with rebates toward the purchase of ZEVs. Additionally, the state’s Low Carbon Fuel Standard (LCFS) program provides funding to support various ZEV-incentive programs offered to customers through utilities. In addition to the state programs that subsidize ZEV purchases, other programs subsidize the installation of charging infrastructure to further encourage ZEV adoption.

State’s Multiyear Fiscal Condition is Alarming. The Governor’s 2026-27 budget proposal is only precariously balanced—and we believe the risk of a stock market downturn is elevated. If a downturn were to occur, it would substantially worsen the state’s near-term budget picture. Moreover, even without a stock market downturn, both our office and the administration expect the state to face multiyear deficits, with estimates ranging from \$20 billion to \$35 billion

annually. Given this fiscal reality, we expect that the Legislature will need to make very difficult budget decisions in the years to come.

Governor’s Proposal

Proposes \$200 Million and Budget Trailer Legislation to Create New ZEV Incentive Program. The Governor proposes \$200 million on a one-time basis (\$115 million from GGRF and \$85 million from APCF), along with associated budget trailer legislation to create a new incentive program for light-duty ZEVs. The new program would provide point-of-sale incentives for new and used vehicles, and the incentives would be administered by vehicle manufacturers. According to the administration, the incentives would be provided on a first-come, first-serve basis and would not be restricted based on household income. The program is proposed to include various limitations, however. For example, to participate in the program, manufacturers would be required to match the incentive amount that is provided by the state. Additionally, the incentives would only apply to first-time purchasers of ZEVs and to vehicles that do not exceed certain manufacturer’s suggested retail prices, such as \$55,000 for new sedans and \$80,000 for new sport utility vehicles and light-duty trucks. Under the proposal, other program details—such as incentive amounts, the number of incentives to be provided, and the duration of the incentive program—would be determined by CARB through an expedited rulemaking process that would not be subject to the requirements of the Administrative Procedures Act.

Assessment

Proposals Funded by GGRF and APCF Should Meet High Bar for Approval. In light of the state’s budget condition—and as we discuss in greater detail in our recent publication, [The 2026-27 Budget: Framework for Approaching the Natural Resources, Environmental Protection, and Agriculture Budget](#)—we recommend the Legislature apply a high bar to its review of new proposals, including those supported by the General Fund or special funds, and limit new spending to urgent or critical needs. We think applying this principle broadly across all fund types is important because special funds can serve as

tools to help address the budget deficit, such as by taking on expenditures previously funded by the General Fund or providing loans to the General Fund. For example, the Legislature has the option of using monies from GGRF flexibly to support any purpose. As such, GGRF could be thought of akin to the General Fund and therefore should similarly be targeted for the state's highest priorities (whether within the environmental sector or other policy areas). Additionally, APCF potentially could be used to support some activities currently being funded with GGRF, thereby freeing up those dollars to help fund other priorities.

ZEV Proposal Does Not Meet High Bar for New Expenditures. Addressing climate change and air quality are longstanding state goals. However, the state already has overarching programs—such as cap-and-invest and LCFS—that are aimed at helping ensure that the state continues to make progress decarbonizing and shifting to cleaner transportation fuels. While ZEV-specific programs can play a role in augmenting the state's broader programs—such as by making ZEVs more accessible to low-income households and helping to encourage the market to produce a greater number and variety of vehicles—they are less critical than they otherwise would be without the “backstop” of those broader GHG-reducing programs. Moreover, given the time horizon over which the public likely will phase in purchases of new ZEVs, providing financial incentives for their adoption does not constitute an urgent need that must be funded this year.

State Does Not Have Fiscal Capacity to Backfill Federal Commitments. The administration indicates that the impetus for this proposal is to partially backfill the recent loss of federal incentive funding. However, the state is facing the loss of federal funds across a variety of areas and does not have the fiscal capacity to backfill them across the board. For example, given the state's fiscal limitations, the administration is not proposing to backfill the loss of federal funds in many other areas of the budget, such as health and human services. The rationale for treating this ZEV program as a higher priority for backfill relative to those other areas is not clear.

Key Program Details Are Lacking, Making a Thorough Assessment Impossible...

The administration has not yet determined key details on the proposed program's structure, such as the duration of the program, the number of incentives to be provided, or the amount of each incentive. The proposal anticipates that CARB will decide upon these specifics through an expedited rulemaking process over the coming months. The absence of specific information on the program structure makes it impossible for the Legislature to understand how the program will work or evaluate its costs and benefits. For example, without information on the proposed incentive amounts, the Legislature cannot determine whether the incentives would be sufficient to meaningfully affect behavior. Additionally, without understanding the number of incentives that will be provided, the Legislature does not know the number of purchases that could potentially be encouraged—at least to some degree—by the proposal.

...But Indications Suggest Proposal May Not Have Large Effect on ZEV Sales. Even without key program design information such as the incentive amounts or number of incentives that will be provided, the total amount of funding proposed makes it clear that the scope of the program is likely to be relatively modest and short term. For example, for illustrative purposes, even if we assume that only half of last year's ZEV purchases would qualify to receive rebates due to the program's restrictions, we estimate that the proposed funding would support incentives of just \$1,000 per vehicle for one year. This incentive amount is quite modest given current vehicle costs, which average about \$50,000 for new vehicles and \$25,000 for used vehicles. (ZEVs typically cost several thousand dollars more to purchase than conventional vehicles). While the proposal attempts to magnify the potential effect of incentives by requiring manufacturers to provide a dollar-for-dollar match, the incentive amount likely still would be relatively small. Moreover, given the opaque nature of vehicle pricing, we expect that ensuring that incentives are passed on to consumers, rather than retained (at least to some degree) by manufacturers or vehicle dealers, will be difficult. In theory, one potentially helpful effect of vehicle incentive programs broadly

could be to induce vehicle manufacturers to produce a greater number and selection of ZEVs. However, doing so likely would require a much larger and/or longer-term investment than what the Governor is proposing (or what the state realistically could provide, given its budget limitations).

Proposal Could Result in Program

Duplication. As noted above, even with the loss of the federal incentive program, the state supports various other ZEV incentive programs. We note that some of these programs currently are running low on funding. For example, the administration estimates that the majority of the \$72 million left in the regional CC4A program as of January 2026 will be exhausted before the end of 2026-27. The administration has not yet determined the extent to which this new proposed program could be used in combination with other existing programs (sometimes referred to as “stacking”). However, given the number of existing programs and policies aimed at incentivizing ZEVs, a potential for duplication exists, which would create challenges. As we discuss in our December 2018 report, [Assessing California’s](#)

[Climate Policies—Transportation](#), such challenges can include (1) program interactions that can affect cost-effectiveness, (2) difficulty evaluating programs, (3) potential lack of program coordination, and (4) increased administrative costs.

Recommendation

Reject Proposal. We recommend the Legislature reject the Governor’s proposal to create a new light-duty ZEV incentive program, as it does not meet the high bar we recommend applying to new proposals. Particularly in light of other existing state programs aimed at reducing GHGs and transitioning the state to cleaner transportation fuels, we find that the proposed incentive program does not address an urgent and critical need. Moreover, while fully evaluating the merits of the proposal is not possible given the lack of details on its structure, the limited, one-time nature of the proposed funding makes it unlikely to have large effects on the marketplace or on the state’s progress in meeting its ZEV adoption goals. Finally, we have concerns that the creation of a new program adds complexity and potential duplication.

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This report was prepared by Helen Kerstein, and reviewed by Rachel Ehlers and Ross Brown. The Legislative Analyst’s Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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