

TEXT OF PROPOSITION 44

**SUBJECT TO COURT
ORDERED CHANGES**

PROPOSITION 44

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds sections to the Corporations Code, Government Code, and the Health and Safety Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

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The Clinic Funding Accountability and Transparency Act (As Amended September 2025)

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds sections to the Health and Safety Code, Corporations Code, and Government Code.

SECTION 1. (TITLE.) Title.

This measure shall be known and may be cited as the "Clinic Funding Accountability and Transparency Act."

SECTION 2. (FINDINGS AND DECLARATIONS.)

Findings and Declarations.

The People of the State of California find and declare all of the following:

(a) Federally Qualified Health Centers (FQHCs) are a form of community clinic that are fundamental to the California health care safety net, as their mission is to provide primary and preventive care to low-income and underserved populations.

(b) Most FQHCs in the state are operated by nonprofit organizations governed by a board whose responsibility is to ensure that the clinic meets its missions as a safety-net healthcare provider and nonprofit public benefit corporation subject to state and federal tax exemptions. #

(c) Clinic boards have significant responsibility and exercise a great deal of authority in decisions on both organization design and compensation, including that of the CEO and other executives.

(d) Though existing state law requires nonprofit boards of directors to review and approve CEO and CFO compensation to ensure that it is just and reasonable, many clinics pay excessive shares of their revenue towards executive compensation, resulting in underinvestment in core patient services.

Chief Executive Officer

(e) Since 2018, all nonprofits, including clinics, have been required to report the dollar amount of their mission-related, i.e., "program," expenses, as well as "management and administrative" expenses to the IRS annually. Many clinics in California incur management and administrative expenses that are much higher than average—sometimes 30 to 40 percent of total revenue—while others spend less than 10 percent.

(f) Many clinics are highly profitable, sometimes reporting annual surpluses of as much as 20 percent of total revenue, rather than spending the funds in a manner consistent with their charitable mission.

(g) Worker training, recruitment, and retention are problems for California clinics. Clinic workers report chronic understaffing, high workloads, and staffing turnover, as well as long wait times for patients.

(h) It is the intent of this initiative to create a reasonable minimum standard of mission-directed spending as a proportion of total revenue to ensure clinic patient service delivery and workforce stability is prioritized over management and overhead spending.

SECTION 3. REPORTING REQUIREMENT.

Reporting Requirement.

Section 12586.3 is added to Article 7 of Chapter 6 of Part 2 of Division 3 of Title 2 of the Government Code, to read:

(a) For purposes of this section, the following definitions apply:

(1) "Clinic" means any clinic corporation, as defined at paragraph (3) of subdivision (b) of Section 1200 of the Health and Safety Code, that is a federally-qualified health center (FQHC) as that term is defined in Section 1396d of Title 42 of the United States Code. For purposes of this paragraph, FQHCs include organizations that do not receive an FQHC award, but are designated by the federal Health Resources and Services Administration as meeting FQHC program requirements, as set forth in Sections 1395x(aa)(4)(B) and 1396d(1)(2)(B) of Title 42 of the United States Code, also known as "FQHC Look-Alikes." "Clinic" shall not include federally recognized Indian tribes, tribal organizations, or urban Indian organizations, as defined in Section 1603 of Title 25 of the United States Code, or any outpatient setting conducted, maintained, or operated by such an entity.

(2) "Mission Spend Ratio" is the total amount spent on activities that accomplish each clinic's exempt purpose divided by that clinic's total revenue, as those figures are described in paragraph (1) of subdivision (b). When calculating Mission Spend Ratio, the Attorney General shall exclude from both the total amount spent on activities and total revenue an amount equal to any penalties paid, expenditures made based on a plan agreed to with the Department of Public Health, or reimbursements received pursuant to Section 1234.1 of the Health and Safety Code.

(3) "Related party" means a related organization or an organization that is under common ownership or control, as defined in Section 413.17(b) of Title 42 of the Code of Federal Regulations. A related party may include a management organization, owners of real estate, entities that provide staffing, any parent companies, holding companies, subsidiaries, sister organizations, and others.

(b) (1) Each clinic shall annually file with the Registry of Charities and Fundraisers data sufficient for the Attorney General to calculate a "Mission Spend Ratio," as defined herein. This data shall include two components:

(A) Total sums spent on a clinic's exempt purpose. This amount will be based on the data reported in the "total program service expenses" figure from line 4e of Part III of each clinic's Form 990 as of calendar year 2024 or the tax year beginning in 2024 or such successor portion of clinics' tax reporting, but shall be adjusted based on guidance issued by the Attorney General under paragraph (2).

(B) Total revenue for the organization. This amount may will be based on the data reported in the total revenue figure from line 12 of Part I of each clinic's Form 990 as of calendar year 2024 or

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the tax year beginning in 2024 or ^{the} ~~such~~ successor portion of clinics' tax reporting, but shall be adjusted based on guidance issued by the Attorney General under paragraph (2).

(2) The Attorney General is authorized to issue binding guidance on how to report these two figures.

(A) Among other topics, ^{the} ~~such~~ guidance may address:

^{that} (i) Additional reporting standards for related party transactions that address the extent the manner in which ~~such~~ data is reported to the Internal Revenue Service has the potential to artificially increase total sums spent on a clinic's exempt purpose, ~~such as~~ by permitting ^{including} transactions to a related party to be attributed to amounts spent on a clinic's exempt purpose even if the related party's resulting expenditures would not be deemed attributable to that exempt purpose, or artificially decrease total revenue, ~~such as~~ by permitting revenue to be attributed to a related party. ^{including}

1234.5 (ii) How penalties paid under Section 1234.1 of the Health and Safety Code, as well as reimbursements and expenditures made pursuant to a plan agreed upon with the Department of State Public Health under Section 1234.1 of the Health and Safety Code, shall be reported in order to exclude them from the Mission Spend Ratio calculation.

(iii) Consistent with subparagraph (B), additional reporting requirements for expenditures that do not qualify as program service expenses on ~~the~~ Form 990 but that the Attorney General ^{Internal Revenue Service} determines to nevertheless be spent on the clinic's exempt purpose or expenditures that do qualify as program service expenses on ~~the~~ Form 990 but that the Attorney General determines to nevertheless not be spent on the clinic's exempt purpose.

(B) Any guidance shall be designed to further the objectives of the Clinic Funding Accountability and Transparency Act by creating a reasonable minimum standard of mission-directed spending as a proportion of total revenue to ensure clinic patient service delivery and workforce stability is prioritized over management and overhead spending.

(C) The Attorney General shall issue findings stating the reasons for its determination at the time of issuing guidance.

(D) Notwithstanding Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, the Attorney General may implement this paragraph by means of bulletins, notices, or other similar instructions, without taking further regulatory action. Section 1229.1 of the Health and Safety Code shall not apply to violations based on standards adopted under this paragraph.

(3) Nothing in this section shall be construed as governing how a clinic reports data to the Internal Revenue Service.

(4) The Attorney General shall make this data publicly available on its website within 90 days of receipt.

(5) Each clinic shall file this data no later than when they file reports with the Registry of Charities and Fundraisers under Section 12586.

(c) Each clinic shall submit an additional annual registration fee, which shall be used to fund the activities set forth in this section and Section 1234.1 of the Health and Safety Code, notwithstanding any other law. The Attorney General shall adopt a schedule of fees sufficient to cover the reasonable costs of administering these provisions in consultation with the Department of Public Health. Fees shall be adjusted annually to reflect the actual costs incurred and shall not exceed the amount necessary to fulfill the reasonable regulatory costs of administering these provisions. 1234.5
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Italic (d) The Attorney General shall impose sanctions for the failure to comply with the reporting provisions of this section, in the form of an administrative fine of five thousand dollars (\$5,000) for a first violation and ten thousand dollars (\$10,000) for each subsequent month that a clinic fails to submit the annual reports required by this section. The Attorney General may periodically update the penalty to account for inflation.

State (e) No later than 90 days after receipt of each clinic's submission, the Attorney General shall calculate the Mission Spend Ratio for each clinic, transmit the calculation to the clinic and the Department of Public Health, and make its calculations publicly available on its website.

(f) The Attorney General may conduct an audit of the clinics subject to this section, in a manner and form prescribed by the Attorney General, to ensure the accuracy of the information reported and compliance with the requirements of this section. These audits may also include any audits of contractors or related parties.

(g) Section 9230 of the Corporations Code and Section 12583 of the Government Code shall not apply to this section.

SEC. **SECTION 4. PENALTY.** *Penalty.*

SEC. 4.1. Section 1234.1 is added to Article 3 of Chapter 1 of Division 2 of the Health and Safety Code, to read: 1234.5

1234.5. 1234.1. *created*

Italic (a) (1) There is hereby continued in the Special Deposit Fund, established pursuant to Section 16370 of the Government Code, the Mission Spend Ratio Penalty Account. The account shall contain all moneys deposited pursuant to subdivision (b).

(2) Moneys held in the Special Deposit Fund shall be held in escrow for a period of five years, after which they shall be subject to appropriation by the Legislature on initiatives funding clinical worker training, recruitment, and retention.

(3) While held in escrow, moneys shall be reimbursed to the clinics, as defined in paragraph (1) of subdivision (a) of Section 12586.3 of the Government Code, that paid them, provided that:

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(A) The clinic comes into compliance with the applicable 90 percent Mission Spend Ratio requirement; and ~~requirement.~~ *State*

(B) The clinic reaches agreement with the *State* Department of Public Health on a plan to spend all of the moneys reimbursed on mission-directed expenses.

(4) Notwithstanding the preceding paragraph, the *State* Department of Public Health may use moneys in the Special Deposit Fund to fund the activities set forth in this section, including, but not limited to, maintaining the Special Deposit Fund and conducting the reviews required for a clinic to be eligible for reimbursement pursuant to paragraph (3). Moneys ~~so~~ *State* spent may be subtracted from any amounts reimbursed to clinics pursuant to paragraph (3).

State (5) The Department of Public Health shall have authority to audit clinics for compliance with any plans agreed to pursuant to subparagraph (B) of paragraph (3) and recoup any reimbursement to the extent a clinic does not comply. ~~Such~~ *State* recoupment shall be subject to the same procedures set forth in paragraphs (2) and (3) of subdivision (b). *The*

(b) (1) The Department of Public Health shall annually assess on each clinic subject to Section 12586.3 of the Government Code that has a Mission Spend Ratio below ~~ninety percent (90%)~~ *90 percent* an administrative penalty equal to the difference between the amount the clinic spent on mission-directed expenses and 90 percent of the clinic's total revenue. ~~It shall issue a notice of penalty to any clinics found to be in violation within 30 days of receipt of the Attorney General's Mission Spend Ratio calculation.~~

State (2) If the clinic does not dispute the Mission Spend Ratio calculation or assessment, the penalties shall be paid in full to the Department of Public Health within 30 days of receipt of a notice of penalty and deposited into the Mission Spend Ratio Penalty Account. *The State Department of Public Health*

(3) If the clinic disputes the Mission Spend Ratio calculation made pursuant to subdivision (e) of Section 12586.3 of the Government Code or assessment made pursuant to this subdivision, the clinic shall, within 30 days of the clinic's receipt of the notice of penalty, simultaneously submit a request for appeal to both the Attorney General and the Department of Public Health. A request for an appeal may be made by a facility based upon a determination that does not result in an assessment. The request shall include a detailed statement describing the reason for appeal and include all supporting documents the clinic will present at the hearing. Upon timely service by the clinic of the request, a hearing shall be set and the proceedings shall be conducted in accordance with Article 1 (commencing with Section ~~131071~~ *131050*) of Chapter 2 of Part 1 of Division 112. *State*

State (c) (1) A clinic may apply to the Department of Public Health for a waiver providing a temporary pause of the 90 percent requirement or for an alternative mission spend ratio requirement, on the basis of unexpected or exceptional circumstances or the clinic's economic condition. The issuance and terms of the waiver pursuant to this subdivision shall be solely and exclusively within the authority of the Department of Public Health. A waiver issued pursuant to this subdivision shall be for a term of one year from the date of issuance.

(2) To obtain a waiver based on unexpected or exceptional circumstances, a clinic shall detail the following circumstances experienced by the clinic:

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- (A) When the clinic first learned of the unexpected or exceptional circumstances.
 - (B) Why the clinic could not have anticipated those circumstances arising.
 - (C) Actions that the clinic took to address those circumstances.
 - (D) Expenses incurred as a result of addressing those circumstances.
 - (E) When the clinic expects those circumstances to be resolved.
 - (F) Preventive steps that the clinic is taking to ensure that those circumstances do not unexpectedly arise in the future.
- (3) To obtain a waiver based on economic condition, a clinic shall demonstrate that compliance with the 90 percent Mission Spend Ratio requirement would raise doubts about the clinic's ability to continue as a going concern under generally accepted accounting principles. The evidence shall include documentation of the clinic's financial condition, the financial condition of any parent or affiliated entity, and evidence of the actual or potential direct financial impact of compliance with the 90 percent Mission Spend Ratio.
- (4) Consideration of a clinic's ability to continue as a going concern shall include the following factors regarding the clinic or any affiliated entity:
- (A) Actual or likely closure of any facilities operated by the clinic or any affiliated entity.
 - (B) Actual or likely closure of patient services or programs.
 - (C) Actual or likely loss of jobs.
 - (D) Whether the facilities operated by the clinic are small, rural, or frontier, or serve a rural catchment area.
 - (E) Whether closure of any facilities operated by the clinic would significantly impact access to services in the region or service area.
 - (F) Whether the clinic is in financial distress that results or is likely to result in the closure of any facilities it operates or any affiliated entity, closure of patient services or programs, or loss of jobs. Factors to consider in determining financial distress include, but are not limited to, the clinic's prior and projected performance, on financial metrics, including the amount of cash on hand, and whether the clinic has, or is projected to experience, negative operating margins.
- (5) Requests for a waiver pursuant to this subdivision shall be submitted in writing to the Department of Public Health.
- (6) The Department of Public Health shall notify the clinic of the decision on the waiver request in writing.
- (7) A clinic may apply to renew a waiver issued pursuant to this subdivision at any time no fewer than 180 days before the expiration of the existing waiver.

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Breach of Charitable Trust Claim.

SECTION 5. BREACH OF CHARITABLE TRUST CLAIM.

Section 5142.1 is added to Article 4 of Chapter 1 of Part 2 of Division 2 of Title 1 of the Corporations Code, to read:

(a) Notwithstanding Section 5142, in the event that a clinic subject to Section 12586.3 of the Government Code either fails to report data as required pursuant to subdivision (b) of Section 12586.3 of the Government Code, or both has a Mission Spend Ratio, as defined in paragraph (2) of subdivision (a) of Section 12586.3 of the Government Code, of under ninety percent and is not subject to a waiver pursuant to subdivision (c) of Section 1234.1 of the Health and Safety Code, any patient of that FQHC may bring an action to enjoin, correct, or otherwise remedy a breach of a charitable trust pursuant to the same procedures applicable to a claim brought pursuant to Section 5142.

(b) Notwithstanding Section 5231, good faith shall not be a defense to any action brought pursuant to this section, nor shall any form of the business judgment rule apply in any aspect to challenged breaches, except as provided under Section 5239.

(c) This section shall also be subject to enforcement pursuant to Section 17204 of the Business and Professions Code.

SECTION 6. CRIMINAL PENALTIES.

Criminal Penalties.

Section 6814.1 is added to Chapter 18 of Part 2 of Division 2 of Title 1 of the Corporations Code, to read:

Every director, officer or agent of any clinic subject to Section 12586.3 of the Government Code who either knowingly misreports expenditures or revenues under Section 12586.3 of the Government Code or knowingly participates in a scheme to route expenditures or revenues through related parties as defined in Section 12586.3 of the Government Code, including but not limited to related foundations, with intent to artificially increase their Mission Spend Ratio, is punishable by imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code, or by imprisonment in a county jail for not more than one year.

SECTION 7. SEVERABILITY.

Severability.

The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SECTION 8. EFFECTIVE DATE.

Effective Date.

Consistent with the purposes of this Act, the requirements on Mission Spend Ratio provided by this Act shall apply to each clinic's first full fiscal year beginning at least 6 months after passage of this Act.

SECTION 9. AMENDMENT.

Amendment.

Pursuant to subdivision (c) of Section 10 of Article II of the California Constitution, this Act may be amended either by a subsequent measure submitted to a vote of the people at a statewide election; or by statute validly passed by the Legislature and signed by the Governor, but only to further the purposes of this Act.

SECTION 10. COMPETING MEASURES.

Competing Measures.

In the event this measure and another measure that governs Mission Spend Ratio at some or all covered clinics appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. Another measure shall not be deemed to be in conflict with this measure solely because it adds or amends one or more of the sections of the Government Code, Health and Safety Code, or Corporations Code added or amended by this measure. In the event this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void.