January 20, 2026

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code 9005, we reviewed the proposed statutory initiative related to oversight of certain nonprofit charities and related entities (A.G. File No. 25-0032, Amendment #1).

Background

Organizations May Seek Nonprofit Charitable Status. Organizations may seek nonprofit charitable status under federal and state law to access various benefits—most notably exemptions from certain taxes, such as income tax. For example, federal law generally allows organizations that are set up and operate exclusively for specified purposes—such as religious, charitable, scientific, or educational purposes—to be eligible for this status. (These are also commonly known as 501(c)(3) organizations.) To obtain this status under both federal and state law, organizations must submit certain information to various federal and state agencies. Such information can include an organization's founding documents and internal governing and operational rules. These nonprofit charities are then subject to federal and state oversight and legal requirements. For example, certain information—such as related to donations, grants, fundraising fees, and/or organization salaries—must be reported annually to specific federal and/or state government agencies. Additionally, the assets of charities must generally be used for the charitable purposes they were originally obtained for.

Department of Justice (DOJ) Regulates Nonprofit Charities in California. State law provides DOJ with authority to regulate nonprofit charities within the state in a few key ways. First, state law requires most nonprofit charities register and provide DOJ with certain information annually. Second, DOJ reviews and investigates organization operations and transactions to ensure compliance with state law. Enforcement actions may be brought against a

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charity if there are violations of state law—such as mismanagement, misleading fundraising practices, or inappropriate use of monies. Third, state law requires DOJ consent to and/or receive notice of certain actions taken by most charities. Examples of such actions include the shutting down of the charity, a merger with another entity, and the sale or transfer of substantially all of the charity's assets. (Assets generally refer to anything of value—including land, work products, and patents—owned by an organization.) As part of its work, DOJ may seek an independent appraisal of or other information related to an organization's assets and/or the terms of a desired transaction.

Proposal

As described above, nonprofit charities in California are subject to certain oversight and reporting requirements under current law, including requirements intended to ensure their assets are generally used for the charitable purposes they were originally obtained for. This measure increases this regulation and oversight of certain nonprofit charities engaged in research or technology creation as well as related entities, such as for-profit entities that receive substantial assets from these charities.

Increases Oversight of Certain Nonprofit Charities and Related Entities. The measure increases oversight of certain nonprofit charities operating in California. In particular, the measure applies to nonprofit charities engaged in research or technology creation that change their legal form (such as partially or fully becoming for-profit entities) or transfer significant assets to another entity. The measure also applies to nonprofit or for-profit entities that result from such changes or that receive significant assets from nonprofit charities engaged in research or technology creation. We refer to the nonprofit charities and related entities subject to increased oversight in the measure as "covered entities."

Creates New Independent Oversight Board. The measure creates a new independent oversight board called the "California Charitable Trust Oversight Board." The board would consist of seven appointed members with certain types of expertise—such as in technology, public policy, nonprofit operations, or ethics. The measure requires a public list of people qualified for appointment to the board, consisting of a minimum of 30 people, be maintained at all times. Board members could only serve up to eight years and would be paid similarly to a California trial court judge. The new oversight board would be required to meet at least quarterly and could hire or contract for staff, consultants, and other services necessary to complete its work.

Provides New Oversight Board With Authority and Certain Requirements. As discussed above, the intent of the measure to is to increase oversight of charitable assets and the responsible use and development of technology and research. The measure provides the new oversight board with broad authority to develop regulations, conduct public hearings, investigate violations, and issue penalties for covered entities that fail to comply with this measure's provisions. The measure also specifically requires the new board take certain actions, including the following:

- Creating and maintaining a public database of covered entities as well as information filed by them with the board;

- Issuing certifications that entities comply with the requirements of this measure and the board as well as any requirements in agreements—referred to as "conversion agreements"—with DOJ allowing a nonprofit charity to fully or partially become a for-profit entity;
- Analyzing an entity's goals for using its assets to benefit the public, determining how those goals will be met, establishing metrics and procedures for measuring the extent to which those goals are met, and considering proposals and information related to these issues submitted by members of the public;
- Developing regulations to ensure that the development or expansion of technology that may have a major impact on the public (such as artificial intelligence) does not harm public safety; and
- Publishing an annual report describing compliance with this measure, trends and emerging issues, and recommendations for legislative and regulatory action.

Requires Increased Reporting From Covered Entities. To facilitate the new board's work, the measure requires covered entities to report certain information to it and/or DOJ. For example, entities would be required to report annually on their assets valued at more than $1 million. If they research or develop technology that may have a major impact on the public, they would also be required to report annually on current capabilities, future changes in capabilities, safety measures, and any safety issues that emerged. Additionally, notice—between 30 to 90 days depending on the specific action—is required before entities could change their governance structure, seek a merger or acquisition, sell or transfer more than $50 million in assets, or meaningfully change their presence in California (such as actions that change the number of employees in the state or annual revenues).

Requires DOJ and/or Trial Court Approval for Certain Actions. The measure requires nonprofit charities seeking to fully or partially become for-profit entities to agree to certain terms in conversion agreements with DOJ. This includes requiring the nonprofit charity, and any resulting covered entity that receives its assets, to agree to comply with all of the requirements of this measure and California court oversight of its compliance. The measure also limits changes to any terms in conversion agreements DOJ negotiates with the nonprofit charity and the resulting entities. Specifically, in addition to the new board's approval, written consent by DOJ and approval by the trial courts would be required for any change in terms. Additionally, the measure requires any transfer or waiver of a nonprofit charity's control over the for-profit entity that fully or partially receives its assets be approved by the trial courts.

Allows For Various Fees to Be Charged to Support New Oversight Board. The measure allows the new oversight board to charge various fees to support its work. This includes fees ranging from up to $50,000 to $250,000 to be paid for certain activities. For example, a fee of up to $250,000 could be charged annually to issue certification that a covered entity complies with this measure's requirements, the new oversight board, and any conversion agreements with DOJ. The measure also authorizes the new oversight board to charge each entity an annual fee based on the value of its assets. The exact fee amounts would vary but is intended to fund the new board's activities.

Authorizes New Criminal and Civil Penalties. The measure authorizes various new criminal and civil penalties. This includes a criminal fine and/or up to one year in jail for deliberately not complying with the requirements of this measure. It also includes civil penalties for specific types of violations. These range from up to $25,000 per month for failing to file required reports to up to $20 million for "evasion" of the measure's requirements. Penalties could be sought by the new board or DOJ and would be paid to the state. If the new oversight board or DOJ is not actively investigating or seeking civil penalties against a covered entity, the measure allows members of the public to seek penalties for violations. If a member of the public wins their case, they may keep 25 percent to 50 percent of any civil penalties or other money awarded as well as attorney fees and costs. In contrast, an entity that wins would not be entitled to attorney fees and costs unless the court found the case had been filed unreasonably. Finally, entities that violate this measure in certain ways—such as not complying with the terms of a conversion agreement—would be required to pay a "charitable asset recapture" penalty. This penalty would be the greater of either the fair market value of all the entity's assets or an amount specified in the conversion agreement.

Creates New State Fund. The measure requires fee and penalty revenues be deposited into a new state fund—the California Charitable Trust Protection Fund. The Legislature would allocate monies from the fund to support the new board's operations, enforcement costs, and other purposes (such as public education on preventing charitable fraud). However, charitable asset recapture penalty revenues could only support charitable activities consistent with the mission of the original nonprofit charity.

Fiscal Effects

This measure would have various fiscal effects on the state and local government. However, the size of these effects are uncertain as they would depend on various unknown factors, such as how many covered entities there are and how it would be interpreted and implemented. For example, it is unclear if all of its provisions would be allowed under the state or U.S. Constitutions. Our estimate below assumes that all of its provision would go into effect.

Increased State Costs for New Oversight and Enforcement. The measure would increase state costs for creating and supporting the new oversight board. These costs include board member and staff compensation, technical experts, and technology system costs. This also includes costs for maintaining a list of qualified candidates that could be appointed to the board. Additionally, the measure could increase DOJ and court workload and costs. For example, DOJ could have increased workload related to seeking penalties for violations of the measure. Similarly, court workload would increase if members of the public file cases seeking monetary penalties. The total increase would depend on how people respond to this measure. This includes the specific activities the new board chooses to engage in, what activities covered entities choose to engage in (such as how often they make large asset transfers), and how often members of the public file cases in court. These costs would vary from year-to-year, but would likely range from the millions of dollars to the tens of millions of dollars annually—but could reach into the low hundreds of millions of dollars annually. These costs would generally be paid by new revenue collected by fees or penalties authorized by the measure; however, there could be initial costs to the state General Fund, likely in the range of millions of dollars to tens of millions of dollars, to begin these efforts in advance of future revenues.

Other Fiscal Effects. This measure could impact the taxes paid by technology companies or their employees. California-based companies could make changes to their operations in response to the measure's requirements. For example, the increased oversight could limit how covered entities use their assets or develop technology. If these decisions change the profits of these companies or how many people they employ in California, it would affect state and local tax revenues. Whether this would occur is uncertain.

Summary of Major Fiscal Effects. This measure would have the following major fiscal effects:

- Increased state costs that would likely range from the millions of dollars to the tens of millions of dollars annually—but could reach into the low hundreds of millions of dollars annually—to increase oversight of certain nonprofit charities and related entities engaged in research and technology creation. These costs would generally be paid for by a similar amount of revenues from new fees and penalties paid by entities subject to the increased oversight.

Sincerely,

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for Gabriel Petek
Legislative Analyst

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for Joe Stephenshaw
Director of Finance