September 22, 2025

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 Section 9005, we have reviewed the proposed statutory initiative that would require nonprofit safety net health clinics to spend at least 90 percent of annual revenue on certain types of expenses (A.G. File No. 25-0008, Amendment #1).

BACKGROUND

Certain Clinics Serve People With Limited Access to Health Care. Certain health clinics—commonly referred to as safety-net clinics—serve a region or population that has limited access to medical services. These clinics include federally qualified health centers (FQHCs). Many FQHC patients have health insurance through Medi-Cal, the state's Medicaid program that provides health care coverage for low-income Californians. FQHCs offer a range of primary care services such as preventive screenings, vaccinations, family planning and maternity care, dental services, and counseling. FQHCs charge uninsured patients based on a sliding fee scale, which means that low-income people pay little to no out-of-pocket cost for services. There are over 1,000 FQHCs in California. Many FQHCs in California are nonprofit corporations. Others are operated by public entities, such as counties.

Nonprofit Clinics Report Annual Information on Finances. FQHCs that have nonprofit status are required to submit reports each year to the Internal Revenue Service (IRS) and the state Attorney General on their revenues and expenses. These clinics report on the amount of revenue that they collect in a year and the sources of the revenue (such as Medi-Cal, private insurance, out-of-pocket payments from patients, federal grants, and charitable donations). Clinics also report the share of total expenses that advance the clinic's mission to provide primary care services to medically underserved groups (separate from the clinic's management and fundraising expenses).

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PROPOSAL

Requires Nonprofit FQHCs to Spend at Least 90 Percent of Revenues on Mission-Related Services. The initiative would require nonprofit FQHCs to spend at least 90 percent of their annual total revenue on expenses that advance the FQHC's mission, which is to provide primary care services to medically underserved groups. The initiative provides that such mission-related expenses would be defined by the Attorney General and based on the reports submitted to the IRS. This means that the Attorney General would use the IRS submissions as a starting point, but has authority to set its own definition of mission-related services. Based on data reported by clinics, the Attorney General would calculate whether a clinic has met the initiative's spending requirements. The Attorney General would report its calculations to the California Department of Public Health (CDPH), which has enforcement authority under the initiative.

Creates Penalties for Violating Requirements. Affected clinics that violate the initiative's requirements, as determined by the Attorney General, would face two penalties. First, clinics that fail to comply with the initiative's reporting requirements would be subject to a fine levied by the Attorney General. Second, clinics that spend less than 90 percent of annual revenue on mission-related expenses in a given year would have to pay a penalty to the state that would be levied by CDPH. The penalty would equal the shortfall from the 90 percent requirement (that is, the difference between 90 percent of the clinic's total annual revenue and the amount the clinic spent on mission-related expenses in that year). The state would return part of this penalty payment later if the clinic meets two conditions to become compliant: (1) the clinic can prove that it has started spending at least 90 percent of its revenue on mission-related expenses, and (2) the clinic has a state-approved plan to spend the returned funds on mission-related expenses. If a clinic does not come into compliance within five years, the state would be required to spend any remaining penalty funds on clinic workforce programs. Clinics would be able to request an exemption from the initiative's requirements under certain circumstances.

FISCAL EFFECTS

Creates State Enforcement Costs. Under the initiative, two state entities would incur costs to enforce the initiative's new requirements on nonprofit FQHCs. The increase in cost likely would be up to the low tens of millions of dollars annually. The initiative generally would allow the state to cover much of these costs by charging fees and penalties on affected clinics.

Could Have Other Uncertain Effects, Depending on Clinic Responses. While recent tax filing data indicates that most FQHCs spend less than 90 percent of their annual revenue on mission-related expenses, the ultimate number of clinics that might violate the initiative's requirements would depend on the Attorney General's definition of mission-related expenses. Affected clinics would need to adjust their spending to comply with the initiative's requirements and avoid paying a penalty. These clinics could respond in a number of ways, each with different potential effects on state and local governments. For example, some clinics might increase patient services, which could increase state Medi-Cal spending. Other clinics might close if they cannot sufficiently adjust to the measure's requirements, which could shift patients to publicly operated safety net providers and increase state and local costs. The net effect on state and local governments of these potential changes is uncertain, and could range from limited to extensive.

(The state spends a few billion dollars annually for clinic services delivered to Medi-Cal members.)

Summary of Fiscal Effects. We estimate that this measure would have the following major fiscal effect:

- State cost of up to the low tens of millions of dollars annually to enforce the new requirement that nonprofit safety net health clinics spend at least 90 percent of annual revenue on certain types of expenses, much of which would be covered by fees and penalties charged on the affected entities.

Sincerely,

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for Gabriel Petek
Legislative Analyst

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for Joe Stephenshaw
Director of Finance