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

INITIATIVE COORDINATOR  
ATTORNEY GENERAL'S OFFICE

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 limit pay for administrators at hospitals and physician groups (A.G. File No. 25-0009, Amendment #1).

## BACKGROUND

***California Has Hundreds of Hospitals...*** Hospitals provide same-day and overnight medical care to patients. There are over 400 hospitals in California. About half are nonprofits and another one-third are for-profits. The rest are owned by public entities, such as counties and special health care districts.

***...and Physician Groups.*** Many doctors work for physician groups. These groups provide health care at offices, hospitals, and other settings. There are at least a few hundred physician groups in California.

***Hospital Administrator Pay Varies.*** Limited data suggest that hospital administrator pay varies widely. According to a past study, executives at nonprofit hospitals earned an average salary of \$600,000 in 2018. This amount was around three to six times the average pay for executives in most other nonprofit sectors. That said, some hospital executives earn in the low hundreds of thousands of dollars, while others earn millions of dollars.

## PROPOSAL

***Limits Pay for Administrators at Hospitals and Physician Groups.*** The initiative would limit how much hospitals and physician groups could pay their administrators (including executives and managers). The limit would apply to private entities, as well as public hospitals

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owned by special districts. Other public hospitals, such as those run by counties, would be exempt. The limit would initially be \$450,000. After the first year, it would change each year (annually), generally based on inflation. The limit would apply to most kinds of pay. There would be some exceptions to these rules. For example, the limit would not apply to physician groups with fewer than 25 employees.

***Creates Three Possible Penalties for Violating Limit.*** The initiative creates three penalties for violating the new limit. The state could decide which penalties to impose, based on the circumstances of the violation and within certain limits. As Figure 1 shows, two of the penalties would only affect nonprofits. Only one penalty—fines—would affect for-profits too. Taxpayers also could sue entities in court to enforce the limit and impose penalties.

Figure 1

### Most Penalties Affect Nonprofits

Possible Penalties on Hospitals and Physician Groups for Not Complying With Limit

	Nonprofits <sup>a</sup>	For-Profits
Loss of tax exempt status	✓	
State appointment of governing board member	✓	
Fines (maximum \$100,000-\$200,000 per violation) <sup>b</sup>	✓	✓
<sup>a</sup> Includes hospitals owned by local districts.		
<sup>b</sup> Fine depends on whether violation is intentional or happens more than once. Individuals could be fined in addition to hospitals and physician groups.		

## FISCAL EFFECTS

***Creates State Enforcement-Related Costs.*** Under the initiative, the state would enforce the new limit on administrator pay at hospitals and physician groups. Enforcement would include reviewing financial reports, investigating affected entities, and resolving certain cases through the trial courts. The cost could be as much as several million dollars annually. The initiative generally allows the state to cover most of this cost by charging fees on affected entities.

***Could Have Other Uncertain, Limited Effects From Lower Administrator Pay.*** Affected hospitals and physician groups would have to reduce the pay of potentially thousands of administrators to comply with the initiative's limit. This lower pay could have many uncertain fiscal effects on state and local governments. For example, it could reduce state tax revenue, much of which comes from income taxes. This effect could be offset, however, if affected entities increase the pay of other staff, hire more workers, or increase charity care services. If affected entities provide more charity care, public hospitals that are not subject to the limit might see some savings too. On net, these effects, if they happen, probably would be fairly limited.

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

- State cost as much as several million dollars annually to enforce the new limit on pay for administrators at affected hospitals and physician groups, mostly covered by fees charged to the affected entities.

Sincerely,



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for Gabriel Petek  
Legislative Analyst



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for Joe Stephenshaw  
Director of Finance