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INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

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 Section 9005, we have reviewed the proposed initiative related to oversight of certain public benefit artificial intelligence (AI) companies (A.G. File No. 25-0033).

BACKGROUND

AI and AI Companies. AI refers broadly to technologies that enable computer systems to perform tasks that typically require human intelligence, such as generating content, identifying patterns, or making predictions from data. AI companies vary substantially in size, organizational structure, and the scale and capabilities of the AI systems they develop or deploy.

Existing State Requirements for Certain AI Developers. Recently enacted state law, effective January 1, 2026, establishes requirements for companies that develop or train highly capable "frontier" AI systems—generally advanced AI models with significant computational scale or capabilities. The requirements are focused largely on the public reporting of AI system capabilities, intended uses, risks, and safety incidents. In addition, large frontier AI developers—generally companies with substantial annual revenue—must publish annual AI safety frameworks that describe, among other things, governance structures, alignment with recognized risk-management standards, and procedures for identifying, assessing, and mitigating major risks.

Public Benefit Corporations Balance Profit With Specified Public Benefits. Under current law, certain businesses may elect to operate as public benefit corporations. These entities are allowed to pursue a public benefit—defined as a material positive impact on society or the environment—alongside shareholder value. Generally, this means such corporations can extend their focus beyond maximizing profits. For example, some public benefit corporations commit their missions to environmental sustainability, public health, or improving access to essential

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services. This applies only to companies that affirmatively elect to operate as public benefit corporations.

PROPOSAL

Creates a New Commission to Oversee Certain AI Companies. The measure establishes the California Public Benefit AI Accountability Commission as an independent, seven-member body within the Department of Justice (DOJ) and authorizes the DOJ to exercise the commission's authority and duties on an interim basis until the commission becomes fully operational. The commission would regulate a narrow category of large AI companies—referred to as "public benefit AI companies"—that meet specified thresholds related to computational expenditures, California nexus, and public benefit or nonprofit status. The commission would be responsible for evaluating and approving public benefit plans submitted by companies regulated under the measure (covered companies). These plans would describe how companies intend to fulfill their stated public benefit or humanitarian commitments, ensure safety and human oversight of AI systems, and address governance and concentration-of-power concerns. The commission would also be required to conduct annual public competitions soliciting proposals for improved approaches to meeting these objectives and to evaluate company plans comparatively. In addition, the commission would have authority to oversee certain corporate governance practices and material financial transactions, conduct audits and investigations, issue binding directives and emergency orders, and adopt regulations necessary to implement the measure. To fund its operations, the measure authorizes the commission to levy annual assessments on public benefit AI companies equal to 1 to 2 percent of their California gross revenue.

Allows New Civil and Criminal Penalties and Private Enforcement. The measure authorizes the commission to enforce compliance by seeking civil and criminal penalties against covered AI companies or their executives. Civil penalties on covered companies may be assessed as a percentage of annual gross revenue, beginning at 5 percent for initial violations and increasing to as much as 100 percent for violations that remain uncured over specified time periods. The measure also establishes personal civil liability for executives who knowingly violate, or knowingly cause or permit violations of, the measure's requirements. Such executives may be subject to penalties of up to $10 million per violation. In addition, certain willful misconduct—such as unauthorized expansion of AI capabilities or obstruction of investigations—would be punishable as a felony, with potential imprisonment of up to five years and fines of up to $10 million, or an amount equal to twice the financial gains resulting from the misconduct. The measure also allows a broad group of individuals to bring civil actions for violations of its requirements, with available remedies including damages of minimum and maximum amounts specified in the measure.

FISCAL EFFECTS

The fiscal effects associated with this measure, described below, are subject to uncertainty. The magnitude of these effects would depend on several unknown factors, including how many entities are regulated under the measure, how the commission implements its authority, how regulated entities respond to the measure's requirements, and the extent to which provisions of the measure are upheld under state and federal law.

Increased State Regulatory and Enforcement Costs. The measure would increase state costs to establish and operate the new commission. These costs would include compensation for commissioners and staff, development and enforcement of regulations, audits and investigations, and evaluation of public benefit plans and public proposals. Prior to the commission becoming fully operational, DOJ would incur additional costs to exercise interim commission authority. In addition, to the extent that the commission or private individuals bring civil or criminal actions in state courts, the measure could increase workload and costs for DOJ and the courts. These increased costs are uncertain but would likely be in the tens of millions of dollars annually. These costs would generally be paid by new revenues from assessments authorized by the measure; however, there could be initial costs to the state General Fund, likely in the range of millions to tens of millions of dollars, to begin these efforts in advance of future revenues.

Other Fiscal Effects. This measure could impact state and local tax revenues by influencing how AI companies operate in California. For example, California-based companies could make changes to their research, development, or investment decisions in response to the measure's oversight and compliance requirements. If such changes affect company profits or employment levels in California, it would affect state and local tax revenues. Whether this would occur is uncertain.

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

- Increased state costs that would likely be in the tens of millions of dollars annually to establish and operate a new regulatory commission overseeing certain public benefit AI companies. These costs would generally be covered by new revenues from annual assessments paid by entities subject to the measure.

Sincerely,

Carolyn Chu

for Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance