

PROP 41: SPECIAL-TAX AUDITS AND THE SPENDING-LIMIT LOCK

Summary

Proposition 41 would write two rules into the California Constitution. First, programs funded by new state special taxes would face independent audits by the state auditor. These audits would occur when the ballot initiative is initially proposed and then every four years after a special tax takes effect. Second, no new state tax could circumvent the Gann limit, the voter-approved spending cap adopted in 1979. Hoover Institution research shows that California's spending has grown far faster than inflation or population and that the state budget rises and falls with the fortunes of a small number of high-income taxpayers. Proposition 41 is best read as an attempt to restore discipline to that budget. It also contains a clause that, if it outpolls Proposition 40, would void the billionaire tax on the same ballot (see [California Decides, Prop 40: The Billionaire Tax Act](#)).

Quick Facts

- **Official ballot title:** "Prohibits New State Taxes That Exclude Revenues from State Spending Limit. Requires Audits for New State Special Taxes. Initiative Constitutional Amendment."¹
- **Measure's own name:** The Improving Transparency, Effectiveness, and Efficiency in California Government Act of 2026 (AG No. 25-0040A1).
- **Type:** Initiated constitutional amendment.
- **A vote YES means:** Starting retroactively on January 1, 2026, any program that would be the recipient of new or increased special tax revenues as a result of a citizen initiative must undergo state performance audits prior to the vote. Such programs, and those receiving revenues from legislatively enacted new or increased special taxes, must be audited every four years thereafter. No new state tax or increase to a state tax enacted on or after that date may route its revenue outside California's voter-approved spending limit, commonly referred to as the Gann limit.
- **A vote NO means:** California keeps current law. New special taxes are not subject to this audit regime, and new taxes may continue to direct revenue into funds that sit outside the Gann limit, as several existing taxes already do.
- **Full legal text:** [Initiative 25-0040A1, Office of the Attorney General \(PDF\)](#)
- **LAO analysis:** [Ballot analysis of Initiative 25-0040](#)

1. OVERVIEW

Proposition 41 would add a new Article XXIV, titled “Protecting Taxpayer Dollars,” to the California Constitution. It has two main provisions.

The first provision is an audit requirement for programs that would receive funds from proposed special tax initiatives. A special tax is one whose revenue is dedicated to specific purposes rather than available for general use. When the proponents of a citizen initiative that would create a new or increased special tax notify the secretary of state that they have gathered 25 percent of the required signatures, the state auditor must begin a financial and performance audit of each program the special tax would fund. The audit must assess program effectiveness, evaluate the potential for fraud, waste, and abuse, and recommend ways the program could achieve budgetary savings of at least 10 percent a year. If the measure qualifies for the ballot, an executive summary of the audit must be printed in the state voter information guide.

A subsequent audit must be repeated every four years for every new or increased special tax enacted by the legislature or by voters on or after January 1, 2026. When a tax passes, the audit costs are reimbursed from the tax’s own revenue. When a tax initiative fails to qualify or is rejected, the general fund absorbs the cost.

The second provision protects the state spending limit from being circumvented by future state taxes. The Gann limit, adopted by voters as Proposition 4 in 1979 and amended by Proposition 111 in 1990, caps how much tax revenue the state may appropriate each year. It’s adjusted for increases to population and per capita income, and some substantial categories of spending are excluded from the cap. According to the Gann limit, if tax revenue exceeds the limit over two consecutive years the excess revenue must be split between taxpayer rebates and additional K–14 school funding. For context, rapid tax revenue growth has rarely resulted in mandatory Gann limit rebates.

However, under current rules a new tax can be written to deposit its revenue in a fund that is excluded from the appropriations counted against the Gann limit. Proposition 41 would forbid that design for any state tax enacted by the legislature or by voter initiative, but the ban is limited to taxes that take effect on or after January 1, 2026. New special taxes would still be permitted, but their revenue would simply count toward the same spending cap that applies to other nonexempt tax revenues.

The second provision connects Proposition 41 to Proposition 40, the Billionaire Tax Act. If Prop 40 is approved it would route its revenue into a separate reserve fund that sits outside the structure of the Gann limit, the Proposition 98 school-funding guarantee, and the rainy-day budget rules. Proposition 41 prohibits new or increased state taxes from circumventing the structure intended to limit the growth of California government spending, and it includes specific text that will nullify Proposition 40 if both initiatives pass but Proposition 41 receives more yes votes.

2. THE LEGAL LANGUAGE

- **Full text:**
[Initiative 25-0040A1, “The Improving Transparency, Effectiveness, and Efficiency in California Government Act of 2026,” California Office of the Attorney General](#) (eight pages, amended language submitted January 12, 2026).
- **Key language:**
“No state tax that is enacted or takes effect on or after January 1, 2026 shall be exempted or excluded from the Government Spending Limitation. The State of California shall not impose, collect, or enforce any state tax that is enacted or takes effect on or after January 1, 2026 if the state tax is exempted or excluded from the Government Spending Limitation.” [1, Art. XXIV, Sec. 3]

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- **What it amends:**

Adds a new Article XXIV, titled “Protecting Taxpayer Dollars,” to the California Constitution. The article defines “Government Spending Limitation” as Article XIII B, the Gann limit, and defines an exempted tax as one whose revenue is deposited outside the general fund and left out of the appropriations subject to the limit or that raises the appropriations limit by statute.

Because it is a constitutional amendment, the legislature cannot repeal it. The measure also includes a self-defense provision that appoints and funds independent counsel through a continuous general fund appropriation if the governor and attorney general decline to defend it.

3. WHAT, WHERE, WHEN, WHY?

- **What?**

It would create constitutionally required audits of programs funded by new or increased special taxes, both before a tax initiative reaches voters and every four years after a tax takes effect. It also creates a ban on excluding the revenue from any new or increased state tax from the Gann spending limit.

- **Where?**

Statewide, written into the California Constitution.

- **When?**

It takes effect on passage and reaches back to taxes enacted or effective on or after January 1, 2026.

- **Why?**

The initiative’s authors frame it as a response to California’s nation-leading tax rates and their effect on the state’s affordability crisis. The stated purpose is to require up-front, recurring audits of programs funded by special taxes and to prevent new taxes from circumventing the Gann limit so that surplus revenue is refunded rather than spent.

4. ANALYSIS AND ASSESSMENT

Audit requirements of Proposition 41 address a documented problem. For example, in 2024 the state auditor found that California spent roughly \$24 billion on homelessness and housing programs over five fiscal years without consistently tracking whether the money reduced homelessness. Three of the five programs reviewed did not produce enough data to judge their cost-effectiveness at all.² Proposition 41 would make that kind of review routine for programs funded by new special taxes, and it would give voters an audit summary before they vote on a tax initiative. Independent, recurring performance audits with concrete savings targets are the kind of accountability that good-government advocates across the spectrum have long sought.

Proposition 41’s requirement that future special taxes be subject to the Gann limit is similarly reasonable: California’s fiscal challenge is accelerated spending, not a shortage of revenue. Research by Hoover Institution Senior Fellow Lee Ohanian shows that from 2019 to 2023 California’s population fell by almost 500,000 people, while the state budget grew nearly 57 percent (31 percent after inflation).³ Additional research by Hoover fellows Lanhee J. Chen and Joshua D. Rauh describes how California’s heavy reliance on the personal income tax, which now supplies most general fund tax revenue, ties the budget to the performance of the stock market.⁴ In 2021, the top 10 percent of taxpayers paid almost 90 percent of personal income tax revenue.⁵ Meanwhile, the state budget swung \$175 billion from a surplus in 2022 to a deficit in 2024.⁶

The Gann limit is one of the few constitutional tools that restrains government spending growth during economic booms that becomes a fiscal catastrophe during leaner times. Prior analysis by Hoover Fellow Bill Whalen has traced how the Gann limit’s fiscal discipline has been eroded over time, from Proposition 111’s 1990 exclusion of new gas tax revenue to budgeting practices that kept billions out of the limit calculation.⁷ Proposition 41 would close the special-fund circumvention for any future tax.

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Importantly, Prop 41 does not ban new taxes, nor does it cut existing programs. It simply requires that revenue from any *new* tax be counted alongside the rest of state spending, so that a future surplus is dedicated to a tax rebate and additional school funding (per Prop 4 and Prop 111) rather than accumulating in a dedicated fund. This rule should help encourage policymakers to be more thoughtful about expanding government programs when tax revenues unexpectedly increase.

Like Proposition 42, Proposition 41 contains a clause that, if it outpolls Proposition 40, would nullify Prop 40. This specificity is likely preferable to asking the courts to decide which parts of two conflicting constitutional amendments survive.

CONCLUSION

Proposition 41 would require any programs receiving funding from new or increased special taxes to be audited by the state auditor to assess performance, evaluate potential for waste, fraud, and abuse, and identify explicit cost savings opportunities. It would also require each new state tax enacted by the legislature or by voter initiative to be subject to the Gann limit. Its most immediate effect would be to nullify Proposition 40 if it draws more yes votes, while its lasting effect would be to hold all future state taxes to the same spending cap as the rest of the budget.

Hoover Institution research shows that California's fiscal problem is driven by spending increases that have managed to outstrip even the state's strong tax revenue growth. From that perspective, Proposition 41 would offer increased oversight on how well California is spending taxpayer dollars.

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ENDNOTES

¹ California Secretary of State, "Proposition 41: Official Title and Summary," Official Voter Information Guide for the November 3, 2026, General Election, <https://voterguide.sos.ca.gov/propositions/41/title-summary.htm>; Initiative 25-0040A1, "The Improving Transparency, Effectiveness, and Efficiency in California Government Act of 2026" (amended language submitted January 12, 2026), [https://oag.ca.gov/system/files/initiatives/pdfs/25-0040A1%20\(Gov.%20Efficiency\).pdf](https://oag.ca.gov/system/files/initiatives/pdfs/25-0040A1%20(Gov.%20Efficiency).pdf). Bracketed citations in the text refer to the initiative.

² California State Auditor, Report 2023-102.1, *Homelessness in California: The State Must Do More to Assess the Cost-Effectiveness of Its Homelessness Programs*, April 9, 2024, <https://information.auditor.ca.gov/reports/2023-102.1/index.html>.

³ Lee Ohanian, "After a \$100 Billion Surplus, California Now Faces a \$73 Billion Budget Deficit," *California on Your Mind*, March 26, 2024, <https://www.hoover.org/research/after-100-billion-surplus-california-now-faces-73-billion-budget-deficit>.

⁴ Joshua D. Rauh and Jillian Ludwig, "The California State Budget and Revenue Volatility: Fiscal Health in a Deficit Context," March 29, 2023, <https://www.hoover.org/research/california-state-budget-and-revenue-volatility-fiscal-health-deficit-context>; Lanhee J. Chen, "How California Can Escape Its Boom-and-Bust Budget Woes," *Los Angeles Times*, January 27, 2026, <https://www.latimes.com/opinion/story/2026-01-27/california-budget-deficit-surplus-spending-commitments>.

⁵ Lee Ohanian, "How Much Longer Will the Top 1 Percent Save California's Budget?" *California on Your Mind*, May 19, 2026, <https://www.hoover.org/research/how-much-longer-will-top-1-percent-save-californias-budget>.

⁶ Lanhee J. Chen, "How California Can Escape Its Boom-and-Bust Budget Woes."

⁷ Bill Whalen, "California's Happy Meal Refund," *California on Your Mind*, April 7, 2021, <https://www.hoover.org/research/californias-happy-meal-refund>.