EXHIBIT 1

INTRODUCTION

Respondent Arnold Schwarzenegger was governor of the state of California from November 2003 through January 2011. Respondent Governor Schwarzenegger's California Dream Team, A Ballot Measure Committee (Respondent Committee), is Respondent Schwarzenegger's candidate controlled ballot measure committee located in Burbank, CA.

This case arose from a complaint made by the Chair of the California Democratic Party. In July 2009, Respondents used Respondent Committee's funds to pay for a television and internet advertisement which referred to state budget negotiations which were in progress. However, under the Political Reform Act (the "Act"),[1] as implemented by regulations adopted by the commission, ballot measure committees which are controlled by candidates for elective state office may only use committee funds to make expenditures that are related to a state or local measure or potential measure anticipated by the committee. In this matter, Respondents failed to comply with Regulation 18521.5, subdivision (d), regarding expenditures made by ballot measure committees which are controlled by candidates for elective state office. By regulation, the Commission takes the position that elected state officeholders such as Respondent Schwarzenegger are candidates even if they no longer are or intend to be candidates for any elected office (see Regulation 18404(d)).

For the purposes of this Stipulation, Respondents' violations of the Political Reform Act are stated as follows:

COUNT 1: Respondent Arnold Schwarzenegger and Respondent Committee, on July 9, 2009, by using Respondent Committee funds to make an expenditure totaling $60,000 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

COUNT 2: Respondent Arnold Schwarzenegger and Respondent Committee, on July 13, 2009, by using committee funds to make an expenditure totaling $800,000 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

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[1] The Political Reform Act is contained in Government Code Sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in Sections 18110 through 18997 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

COUNT 3: Respondent Arnold Schwarzenegger and Respondent Committee, on July 15, 2009, by using committee funds to make an expenditure totaling $4,500 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

COUNT 4: Respondent Arnold Schwarzenegger and Respondent Committee, on July 17, 2009, by using committee funds to make an expenditure totaling $50,000 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

COUNT 5: Respondent Arnold Schwarzenegger and Respondent Committee, on July 21, 2009, by using committee funds to make an expenditure totaling $150,000 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

COUNT 6: Respondent Arnold Schwarzenegger and Respondent Committee, on July 22, 2009, by using committee funds to make an expenditure totaling $41,336 which was unrelated to a state or local measure or potential measure anticipated by Respondents, violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

SUMMARY OF THE LAW

An express purpose of the Act, as set forth in Section 81002, subdivision (a), is to ensure that receipts and expenditures in election campaigns are fully and truthfully disclosed, so that voters may be fully informed, and improper practices may be inhibited. In January 2009, the Commission adopted a regulatory scheme for general purpose ballot measure committees controlled by candidates for elective state office which included rules for the permissible use of funds, recordkeeping requirements, and campaign disclosure requirements. Regulations 18521.5, 18401, subdivision (a)(6), and 18421.8, were approved and adopted by the Commission as a comprehensive system to ensure that money given to ballot measure committees controlled by candidates for elective state office is actually used to support or oppose ballot measures, and that the public is able to identify and monitor the activities of these committees.

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Duties of Ballot Measure Committees Controlled by Candidates for Elective State Office

A. Definition of Candidate and Elective State Office

Section 82007, states in part:

> "Candidate" means an individual who is listed on the ballot …, or who receives a contribution or makes an expenditure or gives his or her consent for any other person to receive a contribution or make an expenditure with a view to bringing about his or her nomination or election to any elective office…. An individual who becomes a candidate shall retain his or her status as a candidate until such time as that status is terminated pursuant to Section 84214.

Regulation 18404, subdivision (d) states that the term "candidate" in Section 82007 includes an officeholder.

Section 82024 states that "Elective State Office," includes, among other offices, the office of Governor.

B. Qualification as a Committee

Section 82013, subdivision (a) of the Act includes within the definition of "committee" any person or combination of persons who receives contributions of $1,000 or more during a calendar year. This type of committee is commonly referred to as a "recipient committee."

Under the Act, there are different kinds of recipient committees, defined by the type of election activity in which they engage. A recipient committee that is formed or exists primarily to support or oppose more than one measure voted on in a state election is defined, at Section 82027.5, subdivision (b), as a "state general purpose committee." Additionally, under Section 82016, "controlled committee" means a committee that is controlled directly or indirectly by a candidate. A committee under Sections 82016 and 82027.5 which supports ballot measures is commonly referred to as a "candidate controlled ballot measure committee."

Regulation 18521.5 states, in pertinent part: "…a candidate for elective state office may control a committee under Section 82013(a) to support or oppose the qualification or passage of a measure, only as provided in this regulation."

C. Committee Expenditures

Pursuant to Regulation 18521.5, subdivision (d), the Act prohibits ballot measure committees controlled by candidates for elective state office from using committee funds for any purpose other than to make expenditures related to a state or local measure or potential measure anticipated by the committee, or to qualification or pre-qualification activities relating to such measures. Such expenditures include, but are not limited to, payment of the committee's reasonable and ordinary operating costs, administrative overhead, fundraising activities, travel, compliance costs, and attorney's fees incurred as a result of the committee's activities. The Commission adopted Regulation 18521.5 at its January 15, 2009 Commission Meeting (operative on March 1, 2009).

Candidate Liability

Under Section 84213, a candidate must verify, and under Regulation 18427, subdivision (c), it is the duty of a candidate to ensure, that the committee complies with all of the requirements of the Act concerning the receipt and expenditure of funds, and the reporting of funds. A candidate may be held jointly and severally liable, along with the committee, for any violations committed by the committee under Sections 83116.5 and 91006.

SUMMARY OF THE FACTS

Respondent Arnold Schwarzenegger was governor of the state of California from November 2003 through January 2011. Respondent Committee is Respondent Schwarzenegger's candidate controlled ballot measure committee located in Burbank, CA.

In the News: California Budget Negotiations, July 2009

In spring and summer 2009, California's budget woes made headlines in state, national and international news. On May 19, 2009, California held a special election to present six initiatives to voters to balance California's state budget. These initiatives were the result of many months of budget negotiations between the California Legislature and Respondent Schwarzenegger. These initiatives failed, so the California Legislature and Respondent Schwarzenegger were forced to re-negotiate.

Subsequently, the California Legislature failed to approve a budget by the June 30, 2009 deadline. Thus, on July 1, 2009, Respondent Schwarzenegger declared a fiscal emergency and added a third furlough day for all state employees.[2] On July 2, 2009, the California state controller began issuing IOU's instead of payments to vendors and contractors of the state. As budget talks between legislators and Respondent Schwarzenegger continued, the Democratic legislators stated that they would no longer hold out for increasing taxes to fill the budget gap, and Respondent Schwarzenegger stated that he was willing to reconsider his proposal to make cuts to education.

However, on July 6, 2009, Karen Bass, the speaker of the California Assembly, walked out of negotiations with the "Big Five."[3] She asserted that Respondent Schwarzenegger was advocating items that she deemed unrelated to the budget process, such as his call for a two-tiered pension system and changes to welfare eligibility. On that same day, California's bond rating was downgraded to BBB, which is just one step above junk bond status.

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[2] Respondent Schwarzenegger had ordered all state employees to observe two furlough days beginning in February 2009 in an effort to decrease California's budget deficit.

[3] The "Big Five" was made up of the four legislative leaders and Respondent Schwarzenegger.

On July 10, 2009, the speaker of the Assembly returned to the negotiating table, and the "Big Five" resumed negotiations. However, major banks had already stated that they would no longer honor California IOUs after July 10.

By July 15, 2009, the "Big Five" announced that they were on the verge of a deal, on July 20 they announced that they had a deal, and Respondent Schwarzenegger signed the revised budget on July 28, 2009.

Prohibited Expenditures Made By Respondents After Adoption of Regulation 18521.5

The evidence in this matter shows that Respondents paid for a 60 second television/internet advertisement called "Stand For California" which was filmed on July 11, 2009. The advertisement aired in major California cities from July 14 through 23, 2009, and on StandForCA.com beginning July 14, 2009. Respondents paid for this advertisement using Respondent Committee funds as follows:

Invoice Date	Amount	Date Respondent Committee Funds Wired	Payee	Description
07/08/2009	$60,000	07/09/2009	Strategic Perception, Inc.	Invoice detailed costs associated with a one day shoot in Santa Monica, CA, for a 60 second television spot
07/10/2009	$4,500	07/15/2009	Dynamic Vision Design Studio, LLC	Invoice for the design and development of the "StandForCA.com" Website
07/12/2009	$800,000	07/13/2009	Multi Media Services Corporation	Invoice for broadcast TV media scheduled from July 14 – 21, 2009, in five California markets: Los Angeles, Sacramento, Fresno, San Diego, and San Francisco
07/14/2009	$41,336	07/22/2009	Strategic Perception, Inc.	Invoice for costs associated with a one day shoot in Santa Monica, CA, of a 60 second television spot which included an overages estimate due to client delays, shoot moved from Friday to Saturday, station distribution costs, closed captioning, dubs, and DVD
07/17/2009	$50,000	07/17/2009	Engage, LLC	Invoice for the StandForCA Ad Plan

Invoice Date	Amount	Date Respondent Committee Funds Wired	Payee	Description
07/21/2009	$150,000	07/21/2009	Multi Media Services Corporation	Invoice for broadcast TV media scheduled from July 22 – 23, 2009, in five California markets: Los Angeles, Sacramento, Fresno, San Diego, and San Francisco
Total	**$1,105,836**			

In Respondents' advertisement, Respondent Schwarzenegger is alone on the screen addressing the camera directly in an unidentified office with American and California flags in the background. Shortly after Respondent Schwarzenegger begins speaking, the words "Governor Arnold Schwarzenegger" appear briefly on the screen next to him. When Respondent Schwarzenegger has finished speaking, his image fades from the screen, and is replaced by the words "StandForCA.com," in large bold font in the center of the screen, and faintly at the bottom of the screen appear the words: "Paid for by Governor Schwarzenegger's California Dream Team, A Ballot Measure Committee." The message of the advertisement spoken by Respondent Schwarzenegger is as follows:

> You elected me to control spending in Sacramento, not as a Republican or Democrat, but as a Californian. At times, it has proven to be a tough task, but now the stakes have never been higher: Californians are losing jobs, losing homes, and they're worried about their children's future, and Sacramento is asking me to sign a budget that raises your taxes and spends money we do not have. I will not sign a budget with higher taxes, that causes businesses to leave and more jobs to vanish, and I will not sign a budget that does not address the waste, fraud, and abuse in our government. And I will not sign a budget that pushes our financial problems down the road because the road stops here. I'm standing firm for a balanced budget that does not raise your taxes. I'm asking you to stand firm with me. Stand for California.

The Complaint

The complaint in this matter was filed with the Commission on July 15, 2009, and the complainant (the Chair of the California Democratic Party) notified the media of the complaint on the same day.

Respondents' Statement of Organization and Campaign Statements

On July 23, 2009, Respondents filed an amended statement of organization for Respondent Committee. The amended statement of organization updated the description of Respondent Committee's activity as follows:

> Anticipates supporting or opposing ballot measures, anticipated ballot measures, and/or potential ballot measures related to budget, governmental reform issues and taxes, proposed by either the people or the Legislature, including but not limited to, measures currently circulating for signatures or awaiting title and summary from the Attorney General's Office such as 08-0021 (Education Funding Sales Tax), 09-0006 (Tax on Pension Distributions and Health Care Benefits), 09-0009 (Tax on Employers Who Collect Life-Insurance Benefits Upon the Death of Former Employees) and 09-0020 (Corporate Taxes). Has supported state ballot measures 1A, 1B, 1C, 1D, 1E and 1F in 2009.

None of the initiatives listed in Respondent Committee's July 23, 2009 amended statement of organization were ever circulated for signatures, although as of July 23, 2009, each of the initiatives listed had been submitted by their proponents to the California Attorney General's Office for titles and summaries, and none had been withdrawn or abandoned.

On February 1, 2010, Respondent Schwarzenegger filed the semi-annual campaign statement for his controlled officeholder committee, Governor Schwarzenegger's 2006 Officeholder Committee (ID# 1292483), for the reporting period of July 1 through December 31, 2009. Governor Schwarzenegger's 2006 Officeholder Committee, which is subject to contribution limits, reported receiving $197,250 in contributions, and $245,766.46 in expenditures, and an end-of-year cash balance of $60,828.33 for calendar year 2009. Additionally, in its statement for the period of January 1 through June 30, 2009, as of June 30, 2009, Governor Schwarzenegger's 2006 Officeholder Committee reported a cash balance of $5,930.80.

In contrast, on February 1, 2010, Respondents filed the semi-annual campaign statement for Respondent Committee for the reporting period of July 1 through December 31, 2009, and reported receiving $7,026,010 in contributions for calendar year 2009. All of the expenditures related to the Stand For California advertisement, airtime and website were reported in this statement. The description of payment for each of the expenditures was stated as follows:

> Expenditure related to ballot measures, anticipated ballot measures, and/or potential ballot measures related to budget, governmental reform issues and taxes, proposed by either the people or the Legislature, including but not limited to, measures that were circulating for signatures or awaiting title and summary from the Attorney General's Office at the time of the expenditure, such as 08-0021 (Education Funding Sales Tax), 09-0006 (Tax on Pension Distributions and Health Care Benefits), 09-0009 (Tax on Employers Who Collect Life-Insurance Benefits Upon the Death of Former Employees) and 09-0020 (Corporate Taxes).

VIOLATIONS

By failing to comply with the provisions of the Act regarding expenditures made by ballot measure committees which are controlled by candidates for elective state office, Respondents committed six violations of the Act, as follows:

Counts 1 through 6
(Prohibited Use of Committee Funds)

Because Respondents identified Respondent Committee as a ballot measure committee controlled by a candidate for elective state office, Regulation 18521.5(d) prohibited Respondents from using Respondent Committee funds for any purpose other than to make expenditures related to a state or local measure or potential measure anticipated by the committee, or to qualification or pre-qualification activities relating to such measures.

In July 2009, Respondents used Respondent Committee funds to pay for a television and internet advertisement entitled "Stand For California." By the plain language of the advertisement, "Stand For California" did not support or oppose any state or local measure or potential measure anticipated by Respondents. The words, "ballot" and "measure" did not appear anywhere in the advertisement. Additionally, the language did not allude to the support or opposition of any measure or potential measure.

By using the funds of a ballot measure committee controlled by a candidate for elective state office for a prohibited purpose, Respondents violated the Political Reform Act by violating Regulation 18521.5, subdivision (d).

CONCLUSION

This matter consists of 6 counts of violating the Act, which carry a maximum administrative penalty of Five Thousand Dollars ($5,000) per count for a total of Thirty Thousand Dollars ($30,000).

In determining the appropriate penalty for a particular violation of the Act, the Enforcement Division considers the typical treatment of a violation in the overall statutory scheme of the Act, with an emphasis on serving the purposes and intent of the Act. Additionally, the Enforcement Division considers the facts and circumstances of the violation in context of the factors set forth in Regulation 18361.5, subdivision (d)(1)-(6):

1. The seriousness of the violations;
2. The presence or lack of intent to deceive the voting public;
3. Whether the violation was deliberate, negligent, or inadvertent;
4. Whether the Respondent demonstrated good faith in consulting with Commission staff;
5. Whether there was a pattern of violations; and
6. Whether, upon learning of the violation, the violator voluntarily provided amendments to provide full disclosure.

For Counts 1 through 6, the use of committee funds for a prohibited purpose is a serious violation of the Act. The funds solicited by Respondents in unlimited amounts for ballot measure advocacy were actually used for purposes other than ballot measure advocacy, although

Respondents contend that they believed the advertisements were "related" to ballot measure advocacy as specified in the Regulation. In fact, these funds were used for issue advocacy, a prohibited purpose under Regulation 18521.5. In enacting Regulation 18521.5, and its companion regulations, the Commission reasoned that candidates for elective state office may engage in issue advocacy using funds from their candidate and officeholder committees, which are subject to contribution limits. The use of funds by ballot measure committees controlled by candidates for elective state office is restricted to ballot measure advocacy because contributions to such committees are not subject to contribution limits. Because this is a new regulation and there are no prior enforcement matters that address this prohibition, there is no typical stipulated administrative penalty range for these types of violations.

FACTORS IN AGGRAVATION

In this instance, Respondents, who are sophisticated and have longstanding knowledge and experience with the Act, violated the provisions of the Act regarding ballot measure committees controlled by candidates for elective state office when Respondents failed to specifically reference ballot measures in the advertisements. Respondents knew or should have known the position of the Commission in this regard. Nevertheless, Respondents used Respondent Committee funds for a prohibited purpose four months after the regulation went into effect.

The expenditures at issue in this case, which were made using Respondent Committee funds, totaled over $1.1 million. Moreover, Respondents failed to seek advice from the Commission prior to the airing of the advertisements.

FACTORS IN MITIGATION

Respondent Schwarzenegger was not running for re-election or any other elective office at the time the expenditures were made, and the advertisement did not support or oppose the candidacy of anyone running for office. Additionally, Respondents timely reported all expenditures related to the "Stand For California" advertisement, and Respondents fully cooperated with the investigation of this matter.

Respondents contend that the regulation was a new one, and that Respondents believed that the 2009 legislative budget battles and the ballot measure process were inexorably linked to each other given the history of budget related ballot measure activity in California and the expectation by Respondents that a new wave of ballot measures relating to the budget impasse was about to emerge.

PENALTY

The facts of this case, including the aggravating and mitigating factors discussed above, justify imposition of the agreed upon penalty of Thirty Thousand Dollars ($30,000): Five Thousand Dollars ($5,000) each for Counts 1 through 6.

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