**EXHIBIT 1**

## INTRODUCTION

Respondent Democratic State Central Committee of California (hereafter "DSCC") is a state general-purpose campaign committee. This case arose from two separate Franchise Tax Board (hereafter "FTB") audits of the DSCC committee for the reporting periods of January 1, 1995 through December 31, 1996, and January 1, 1997 through December 31, 1998. Respondent Katherine Moret served as Respondent DSCC's treasurer from July 29, 1997 through December 31, 1998.

During the two audit periods, the committee received contributions totaling $38,445,458 and made expenditures totaling $36,506,859. From May 19, 1996 to October 17, 1998, Respondents failed to disclose subvendor information on reported expenditures totaling $4,011,271. Additionally, the majority of these expenditures were incorrectly disclosed as general operations and overhead, rather than as broadcast communications expenditures.

Respondents also failed to send required notifications to eight major contributors.

For purposes of this Stipulation, the violations of the Political Reform Act ("the Act")[1] are stated as follows:

COUNT 1: Respondents failed to send required notifications to eight contributors who each contributed five thousand dollars or more, in violation of Government Code Section 84105.

COUNT 2: Respondents failed to report subvendor information for $1,720,705 in payments made to Squier Knapp Ochs Communications on the campaign statement for the reporting period from March 10, 1996 through June 30, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 3: Respondents failed to report subvendor information for $492,428 in payments made to Squier Knapp Ochs Communications on the campaign statement for the reporting period from July 1, 1996 through September 30, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 4: Respondents failed to report subvendor information for $118,059 in payments made to Fenn and King Communications on the campaign statement for the

[1] The Political Reform Act is contained in Government Code sections 81000 through 91014. All references to "Section(s)" are to the aforementioned Government Code unless otherwise indicated. Commission regulations appear at Title 2, California Code of Regulations, section 18109, *et seq*.

reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 5: Respondents failed to report subvendor information for $100,050 in payments made to Morris & Carrick on the campaign statement for the reporting period from October 1, 1996 through October 19, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 6: Respondents failed to report subvendor information for $48,910 in payments made to Fenn and King Communications on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 7: Respondents failed to report subvendor information for $133,400 in payments made to Morris & Carrick on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 8: Respondents failed to report subvendor information for $178,059 in payments made to November Group on the campaign statement for the reporting period from October 20, 1996 through December 31, 1996, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 9: Respondents failed to report subvendor information for $849,949.43 in payments made to Squier Knapp Ochs Communications on the campaign statement for the reporting period from October 1, 1998 through October 17, 1998, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 10: Respondents failed to report subvendor information for $136,500 in payments made to Greer, Margolis and Mitchell on the campaign statement for the reporting period from October 1, 1998 through October 17, 1998, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

COUNT 11: Respondents failed to report subvendor information for $233,210.57 in payments made to other vendors on the campaign statement for the reporting period from October 1, 1998 through October 17, 1998, in violation of Government Code Sections 84211, subdivision (j)(6), and 84303.

RESPONDENTS: Democratic State Central Committee of California, and Katherine Moret.

**SUMMARY OF THE LAW**

Section 81002 provides that campaigns shall fully and completely disclose information regarding receipts and expenditures in election campaigns in order to fully inform the public and inhibit improper

practices. The Act established a comprehensive campaign reporting scheme to accomplish this purpose.

Section 82013, subdivision (a), defines a "committee" as any person or combination of persons who directly or indirectly receive contributions totaling one thousand dollars ($1,000) or more in a calendar year.

Pursuant to Section 84200 *et seq.*, a committee shall file semi-annual and pre-election campaign statements. Section 84211 requires the disclosure and itemization of certain information on these campaign statements.

At all relevant times, Section 84211, subdivision (j), required the disclosure of specific information for all expenditures of one hundred dollars ($100) or more made during the period covered by the campaign statement. The required information included the name and street address of the person to whom the expenditure was made, the amount of the expenditure, and a brief description of the consideration that was received for the expenditure. At all relevant times, Section 84211, subdivision (j)(6), required the campaign statements to additionally include this information for each person who provided consideration to the committee, if different than the payee.

At all relevant times, Section 84303 stated that agents or independent contractors, including but not limited to an advertising agency, shall not make expenditures on behalf of a committee, unless the committee reports those expenditures as if the expenditures were directly made.

Section 84105 states that a committee which receives campaign contributions of five thousand dollars ($5,000) or more from any person shall inform the contributor that she or he may be required to file campaign reports. A contributor can become obligated to file campaign reports by making contributions totaling ten thousand dollars ($10,000) or more in a calendar year, and thereby becoming what is commonly referred to as a "major donor." (Section 82013, subdivision (c).) The notification shall occur within two weeks of receipt of the contributions but need not be sent to any contributor having an identification number assigned by the California Secretary of State.

Under Section 84100 and Regulation 18427, subdivision (a), it is the duty of a committee's treasurer to ensure compliance with all requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds. A committee's treasurer may be held jointly and severally liable, along with the committee, for any reporting violations committed by the committee. (Sections 83116.5 and 91006.)

## SUMMARY OF THE FACTS

Respondent Democratic State Central Committee of California (hereafter "DSCC") is a state general-purpose campaign committee. Respondent Katherine Moret served as Respondent DSCC's treasurer from July 29, 1997 through December 31, 1998. This case arose from two separate

Franchise Tax Board (hereafter "FTB") audits of the DSCC committee for the reporting periods of January 1, 1995 through December 31, 1996, and January 1, 1997 through December 31, 1998. These two FTB audit reports were submitted to the Fair Political Practices Commission on July 31, 1999, and July 31, 2001.

During the 1995-96 audit period, Respondent DSCC received contributions totaling $19,921,677, and made expenditures totaling $18,811,573. Based on the FTB audit findings and the Commission's own review of this matter, during May 19, 1996 through December 1996, Respondents failed to disclose subvendor information for reported expenditures totaling $2,791,611. Additionally, these same expenditures were incorrectly coded as general operations and overhead, rather than as broadcast communications expenditures. During this audit period, Respondents also failed to send required notifications to eight major contributors.

During the 1997-98 audit period, DSCC received contributions totaling $18,523,781, and made expenditures totaling $17,695,286. Based on the FTB audit findings, during October 1, 1998 through October 17, 1998, Respondents failed to disclose subvendor information for reported expenditures totaling $1,219,660.

## COUNT ONE

Respondents failed to send eight notifications to major contributors who contributed five thousand dollars ($5,000) or more.

With respect to the major contributor notices, four of these major contributors gave specific contributions of ten thousand dollars ($10,000) or more to DSCC and thus instantly qualified as major donors under Section 82013, subdivision (c).[2] These major contributors were thus required to file campaign statements disclosing their contributions. Yet only one of the major contributors filed a major donor campaign statement disclosing the contribution to DSCC. If DSCC had properly sent these major donor notifications, it is possible that the other major contributors would have filed their major donor campaign statements.

On the other hand, DSCC properly sent fifty-one (51) other required notices to major contributors. In each instance where DSCC failed to send a notice, the major contributor was a group registered as a political committee with the Federal Elections Commission. The Democratic State Central Committee states that they mistakenly assumed that these entities were also registered committees in the State of California.

By failing to send eight notifications to major contributors who contributed five thousand dollars or more, Respondents violated Government Code Section 84105.

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2 In fact, one of the major contributors to the Democratic State Central Committee gave $50,000 in April 1995 and $120,000 in December 1996. With respect to this contributor, the National Education Association PAC, the Democratic State Central Committee failed in **both** years to send the required major contributor notification.

COUNTS TWO THROUGH ELEVEN

Respondents failed to disclose the required subvendor information for each of the following campaign expenditures shown in the below chart:

| **Count** | **Reporting Period** | **Name of Vendor** | **Amount of Expenditure** |
|---|---|---|---|
| 2 | March 10, 1996 through June 30, 1996 | Squier Knapp Ochs Communication | $1,720,705 |
| 3 | July 1, 1996 through September 30, 1996 | Squier Knapp Ochs Communication | $492,428 |
| 4 | October 1, 1996 through October 19, 1996 | Fenn and King Communications | $118,059 |
| 5 | October 1, 1996 through October 19, 1996 | Morris & Carrick | $100,050 |
| 6 | October 20, 1996 through December 31, 1996 | Fenn and King Communications | $48,910 |
| 7 | October 20, 1996 through December 31, 1996 | Morris & Carrick | $133,400 |
| 8 | October 20, 1996 through December 31, 1996 | November Group | $178,059 |
| 9 | October 1, 1998 to October 17, 1998 | Squier Knapp Ochs Communication | $849,949.43 |
| 10 | October 1, 1998 to October 17, 1998 | Greer, Margolis and Mitchell | $136,500 |
| 11 | October 1, 1998 to October 17, 1998 | Other vendors | $233,210.57 |
| | Total | | $4,011,271.00 |

By failing to disclose required subvendor information for each of the above-described campaign expenditures, Respondents violated Government Code Sections 84211, subdivision (j)(6), and 84303.

DSCC states that it orally sought the required records and subvendor information from both the Democratic National Committee and from each of the different vendors. With regard to written requests for this information made prior to the due dates for the campaign filings, the Democratic State Central Committee has provided only a single facsimile letter to the Democratic National Committee, dated January 4, 1996. The Democratic State Central Committee has also provided multiple letters sent after the elections, during calendar years 1999 and 2000, wherein they requested the required information directly from the vendors.

The Responents have cooperated with our review of this matter.

## CONCLUSION

Respondent DSCC is a long-standing state general-purpose committee. During 1996 through 1998, Respondents failed to disclose over four million dollars in subvendor information. In absolute dollars, the amount of this omitted information is very large. The DSCC has provided staff with copies of letters to demonstrate that they made at least some written requests for the required information from vendors. The DSCC Executive Director also stated that she made numerous oral requests for the subvendor information.

On December 3, 1998, which is after the time periods discussed above, the Commission imposed an administrative penalty against the DSCC for various campaign reporting violations occurring in 1994, including omitted subvendor information on reported expenditures.

This matter consists of eleven counts, which carries a maximum possible administrative penalty of Twenty-Two Thousand Dollars ($22,000). Respondents clearly undertook some efforts to obtain the subvendor information from the vendors. The majority of the subvendor payments were made for media purchases that did not feature state or local candidates or ballot measures. Respondents eventually obtained subvendor information for the October 1 to October 17, 1998 campaign statement and subsequently filed amendments, although after the election. However, Respondents failed to report subvendor information totaling over four million dollars, and the Commission has previously imposed an administrative penalty against the DSCC for similar violations. Additionally, the majority of the expenditures omitting subvendor information were also incorrectly coded as general operations and overhead, rather than as broadcast communications expenditures. Accordingly, the facts of the case justify imposition of the agreed upon administrative penalty of Twenty-Two Thousand Dollars ($22,000).