



**Government Finance and Operations and  
Health and Human Services  
Joint Policy Committee**

*Thursday, March 5, 2009 · 10:30 a.m. – 11:30 a.m.*

*Conference Call – 800/867-2581, passcode: 7500531*

***Supervisor Steven Worthley, Tulare County, Co-Chair  
Supervisor Liz Kniss, Santa Clara County, Co-Chair  
Supervisor Bruce Gibson, San Luis Obispo County, Co-Vice Chair  
Supervisor Terry Woodrow, Alpine County, Co-Vice Chair***

10:00 a.m.

**Welcome and Introductions**

*Supervisor Steven Worthley, Tulare County, Co-Chair  
Supervisor Liz Kniss, Santa Clara County, Co-Chair*

10:05 – 11:00

**Consideration of Special Election Ballot Measures –  
ACTION ITEM**

*Jean Kinney Hurst, CSAC Legislative Representative  
Kelly Brooks, CSAC Legislative Representative*



March 3, 2009

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To: CSAC Government Finance and Operations Policy Committee and  
CSAC Health and Human Services Policy Committee

From: Jean Hurst, CSAC Legislative Representative  
Kelly Brooks, CSAC Legislative Representative  
Farrah McDaid Ting, CSAC Senior Legislative Analyst  
Geoffrey Neill, CSAC Legislative Analyst

Re: **Measures on May 19 Special Election Ballot**

**Staff Recommendation.** Staff recommends that the CSAC Government Finance and Operations and Health and Human Services Policy Committees jointly recommend to the CSAC Executive Committee a position of “neutral” on the package of ballot measures slated for the May 19<sup>th</sup> ballot. Propositions 1A through 1F represent integral components of the budget agreement recently achieved in the Legislature and signed into law by Governor Schwarzenegger.

This recommendation was not considered lightly. After lengthy discussion about the merits of each individual measure and the political risks involved in taking affirmative or negative positions on each, staff believes that the association is unlikely to achieve consensus among its membership for a “support” or “oppose” position. In fact, we believe that for counties, along with many other affected stakeholders, the package was meant to be difficult to support or oppose in its entirety; these measures were delicately negotiated to achieve a result that would pass muster with legislators and with voters, but would also deter well-funded opposition. (We have outlined the measures’ known supporters and opponents in the analysis that follows.) The state programs funded in the 2009-10 budget and beyond are hinged to the passage of this package; if any one of them fails, the state’s budget pressures only increase, exacerbating an already difficult budget situation, putting county programs funded by the state at risk, and potentially extending the state’s cash crisis.

Alternatively, the policy committees could choose to review each measure and consider positions on them individually. Staff could provide additional information to assist you in preparing such recommendations, but cautions that the committees should consider the context in which these ballot measures are put forward, as described above.

The CSAC Executive Committee is scheduled to hold a special meeting on Monday, March 9 at 9:00 a.m. PDT/12:00 p.m. EDT.

**Background.** The 17-month budget agreement that the Governor recently signed into law includes as an integral part a special election on May 19, 2009. This election will give Californians the chance to decide several important issues before the beginning of the next fiscal year. The statewide ballot will include the six measures that the Legislature passed as part of the negotiated budget agreement; an additional measure was scheduled to be included, but has since been pushed back to the June 2010 election.

The six measures agreed to as part of the long-awaited budget compromise are:

- Proposition 1A – Creates a new, larger rainy day fund and puts new limits on state spending growth.
- Proposition 1B – Alters repayment schedule for Proposition 98 funds arguably owed by the state to K-14 districts, totaling \$9.3 billion.
- Proposition 1C – Allows state to borrow money for the General Fund, securitized by future revenue from the California Lottery.
- Proposition 1D – For five years, shifts between half and two-thirds of cigarette taxes away from the First 5 Program (Proposition 10) and into the General Fund.
- Proposition 1E – Amends the Mental Health Services Act (Proposition 63) to shift revenue funds from local programs to the benefit of the state General Fund.
- Proposition 1F – Forbids the California Citizens Compensation Commission from raising legislators' and state officers' salaries when the state is running a deficit.

The measure moved to June 2010 is:

- Proposition 13 – Excludes from reassessment structures retrofitted to better sustain earthquakes.

The six negotiated measures are closely tied to the whole budget agreement. Some of them, Propositions 1C, 1D, and 1E, provide money directly to the General Fund. Proposition 1A was a long-standing demand from both Republican caucuses for any type of budget agreement that included taxes; also, if this measure fails, the duration of the budget's tax hikes (personal income tax, sales and use tax, and vehicle license fee) is shortened to two years. Proposition 1B heads off legal and political challenges from the education community.

#### *CSAC's Adopted Policies and Procedures*

The CSAC Policy and Procedure Manual states that the CSAC Officers will assign qualified propositions to appropriate policy committees when they fall within existing policy as outlined in CSAC's Legislative Platform or pose a direct impact on county government. The officers have referred these measures to this joint meeting of the Government Finance and Operations and Health and Human Services Policy Committees. If the joint policy committees recommend a position on any measures, then those measures proceed to the CSAC Executive Committee for debate and

action. If the Executive Committee votes to recommend a position on any measures, they move to the full Board of Directors for action, or for information if the Executive Committee recommends no action. Any Board member can request the Board's consideration of a ballot measure not otherwise slated for discussion.

## **Policy Considerations.**

### *The Measures Are a Package*

Propositions 1A through 1F are an inextricable part of the budget agreement that the Governor signed earlier this month. There is no need to rehash here the long and tortuous route that led to the agreement, except to note that the atmosphere inside the Capitol remains rancorous and the agreement is precarious. The Legislature placed these six measures on the ballot as part of the budget agreement, and they should therefore be considered as a package.

Due to CSAC's support for a balanced solution, and repeated urging to pass a budget as soon as possible to avoid fiscal meltdowns at the local level, a decision to support or oppose individual measures from this package could be taken badly by some of the legislators who negotiated and voted for the agreement. At the same time, some of the policies that the measures would implement would have a direct negative impact on counties; like all other budget stakeholders, counties did not come through the budget process unscathed.

Over this past year of budget-related wrangling, CSAC has refrained from opposing any but the most egregious proposals, with the understanding that pushing in one area merely causes another, possibly worse, proposal to surface elsewhere. In fact, CSAC indicated its support of a balanced solution several times to the Governor and legislative leaders throughout the process. The six measures described below are part of that balanced solution.

### *Proposition 1A*

This measure changes the state's savings account from a year-to-year contingency fund to a rainy day fund that could smooth out revenue volatility. In doing so, it would cap General Fund spending increases in any year to the average growth of revenues over the previous ten years.

The rainy day fund, called the Budget Stabilization Fund (or BSF), would be filled by annual, automatic deposits of 3 percent of the state's General Fund revenue. The BSF would be considered full when it reached 12.5 percent of the General Fund.

Money could only be spent out of the BSF in certain circumstances. First, when revenues are not high enough to maintain the previous year's spending level, adjusted for population and inflation, the Legislature could appropriate enough of the BSF to reach that level. Second, BSF money could also be used to address an emergency like an earthquake.

Revenues above the growth rate of the previous ten years would have to be used in particular ways, which the measure prioritizes. They would first be used to pay funds required by Proposition 98, second to fill the BSF up to 12.5 percent of General Fund revenues, and third to pay off budgetary borrowing (such as loans authorized by local government's Proposition 1A) or other debt. If none of these are necessary, the Legislature can choose to use the money for either shoring up the BSF further, paying for infrastructure, one-time tax relief, or funding retiree liabilities like OPEBs.

The state can only avoid the automatic annual payment to the BSF if there was not enough revenue to maintain the previous year's spending level, adjusted for population and inflation. However, if Proposition 1B passes, half of the automatic annual payment would go to schools to make up for recent budget cuts. After that, the Legislature could decide to use half of the payments to pay for infrastructure or state bond debt, possibly benefiting the General Fund.

If Proposition 1A passes, the Governor would gain new authority to make mid-year cuts without the Legislature's approval. He could reduce COLAs for any programs specified in the annual budget, though not for most state employees' salaries. He would also be allowed to reduce many types of spending for general state operations or capital outlay by up to seven percent.

Last, but certainly not least controversial, voter approval of Proposition 1A would extend three tax increases by either one or two years. The one cent sales and use tax increase would extend through 2011-12 instead of 2010-11; the VLF increase would extend through 2012-13 instead of 2010-11; and the personal income tax surcharge would extend through the 2012 tax year instead of 2010.

A portion of the VLF increase, 0.15% of the car's value, is dedicated to local public safety programs that were previously funded through the General Fund. These programs include COPS, JJCPA (juvenile justice grants), booking fees, Small and Rural County Sheriffs grants, juvenile probation, juvenile camps and ranches, and various local public safety assistance programs administered through Cal EMA (formerly OES). Of course, removing the appropriations for these programs from the General Fund, and therefore from the annual budget process, results in greater stability for their funding.

CSAC had concerns with previous versions of a cap on state spending. The chief issue has been with the fact that a spending cap does not adequately account for nearly a decade of state underappropriation for county-run social service programs. This Human Services Funding Deficit now reaches approximately \$1 billion per year, and those services would likely remain perpetually underfunded if spending is capped at current levels, absent a tax increase or significant restructuring of other state spending.

However, Proposition 1A would likely have beneficial effects in the long-term. For one thing, with a rainy day fund available for bad budget years, the Legislature would not likely be tempted to borrow property taxes as allowed by 2004's Proposition 1A. The measure would also be likely to reduce the volatility of General Fund revenues through economic cycles, providing more predictability for the state and the programs the state funds.

Two groups, Health Access and the Howard Jarvis Taxpayers Association, have filed a lawsuit claiming that the official summary of the measure is misleading, specifically that it does not mention the tax extensions associated with Proposition 1A's passage.

California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs), as well as the California State Sheriffs' Association (a CSAC affiliate), have come out in support of the measure. The budget reform group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

The argument against the measure is signed by representatives from the Congress of California Seniors, the California Faculty Association, and the Consumer Federation of California. The rebuttal to the argument for the measure is signed by representatives from Health Access California, the United Nurses Associations of California/Union of Health Care Professionals, and the Older Women's League of California.

[Proposition 1A - Title & Summary](#)  
[Proposition 1A - Legislative Analysis](#)  
[Proposition 1A - Argument in Favor](#)  
[Proposition 1A - Rebuttal to Argument in Favor](#)  
[Proposition 1A - Argument Against](#)  
[Proposition 1A - Rebuttal to Argument Against](#)  
[Proposition 1A - Text of Proposed Law](#)

### *Proposition 1B*

This measure would direct a total of \$9.3 billion to K-14 districts over five years beginning in 2011-12, but only if Proposition 1A also passes. The money would be paid using funds that the Controller would otherwise deposit into the rainy day fund, as described above. Some claim that the state owes schools this much as a Proposition 98 'maintenance factor' for recent cuts.

California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, has come out in support of the measure. The group is currently leading the "Yes" campaign for all six budget-

related special election ballot measures. The California Teachers Association also supports this measure.

No one submitted an argument against the measure.

[Proposition 1B - Title & Summary](#)

[Proposition 1B - Legislative Analysis](#)

[Proposition 1B - Argument in Favor](#)

[Proposition 1B - Argument Against](#)

[Proposition 1B - Text of Proposed Law](#)

### *Proposition 1C*

This measure would allow the state to borrow against future lottery revenues (securitization) and changes the allocation of Lottery proceeds. It would also make changes to the Lottery Director's authority and the amount required to be paid to prizes.

California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs), as well as the California State Sheriffs' Association (a CSAC affiliate), have come out in support of the measure. The budget reform group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

The argument against the measure is signed by State Senator Bob Huff, as is the rebuttal to the argument for it.

[Proposition 1C - Title & Summary](#)

[Proposition 1C - Legislative Analysis](#)

[Proposition 1C - Argument in Favor](#)

[Proposition 1C - Rebuttal to Argument in Favor](#)

[Proposition 1C - Argument Against](#)

[Proposition 1C - Rebuttal to Argument Against](#)

[Proposition 1C - Text of Proposed Law](#)

### *Proposition 1D*

This measure would redirect between half and two-thirds of the annual Proposition 10 (First 5) revenue for the fiscal years 2009-10 through 2013-14, to the benefit of the General Fund. The annual redirection would be \$268 million, for a five-year total of about \$1.4 billion. (Local First 5 commissions generally receive eighty percent of First 5 funds.) The measure states that the redirected funding would be applied to existing state early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care

services upon appropriation by the Legislature as part of the annual budget process or in another statute. It would also transfer state First 5 reserves that are unencumbered as of July 1, 2009 to benefit the General Fund. The measure ensures that each county commission continues to receive at least \$400,000 annually.

While the annual sweep of local commission funding could be detrimental to local community programs, the funding will be directed by the state to similar – albeit existing – state-funded purposes. Furthermore, if the measure does not pass, the state may employ other methods, including additional cuts to child welfare services and health services, to address the budget crisis.

California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, has come out in support of the measure. The group is currently leading the “Yes” campaign for all six budget-related special election ballot measures.

As for opposition to the measure, the First 5 Association of California (a CSAC affiliate) has submitted a “No” statement for inclusion in the voter’s guide. There is a Web site under development, [www.NoOnProposition1D.com](http://www.NoOnProposition1D.com), that is expected to be live by early next week. The original supporters of Proposition 10 are expected to fund the opposition. The First 5 Association of California’s board will meet March 13 to take a formal position on the measure.

[Proposition 1D - Title & Summary](#)  
[Proposition 1D - Legislative Analysis](#)  
[Proposition 1D - Argument in Favor](#)  
[Proposition 1D - Rebuttal to Argument in Favor](#)  
[Proposition 1D - Argument Against](#)  
[Proposition 1D - Rebuttal to Argument Against](#)  
[Proposition 1D - Text of Proposed Law](#)

### *Proposition 1E*

This measure would redirect \$460.7 million of revenue from Proposition 63 (the Mental Health Services Act) over two fiscal years, 2009-10 and 2010-11. The money would pay for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services, which the state otherwise pays out of the General Fund. The EPSDT program provides mental health services to Medi-Cal eligible children and youth. Counties have begun providing new programs with revenue from Proposition 63, and now face the prospect of much of that money disappearing for two years. The Department of Finance estimates that Proposition 63 will generate \$981 million in fiscal year 2008-09 and \$887 million in 2009-10. The vast majority of these funds are allocated to counties by Proposition 63 to support local mental health programs and provide a broad continuum of prevention, early intervention, and other service



needs, as well as the necessary infrastructure, technology, and training that support the system.

The two-year sweep of Proposition 63 funding to support state costs for the EPSDT program will be detrimental to local mental health programs. However, if the measure does not pass, the state may employ other methods, including additional cuts to local mental health funding streams, to address the budget crisis. The EPSDT program is a federal entitlement and has a legal history in California; these factors would make it difficult to cut funding for it.

Supporters of the measure include Senate President pro Tempore Darrell Steinberg and California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs. The group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

Opponents of the measure include Senator Lou Correa and the California Council of Community Mental Health Agencies (CCCMHA), who have created the following Web site: [www.noprop1e.com](http://www.noprop1e.com). In addition to leading the "No on Proposition 1E" campaign, the CCCMHA, along with Mental Health America of Los Angeles, filed a lawsuit on February 27 seeking changes to the official descriptions of the measure in the voter's guide, citing "misleading" language that may give voters the impression that passage of the measure "would protect hundreds of millions of dollars' worth of mental health programs, when in fact it cuts programs by that amount." A hearing on the lawsuit is scheduled for March 5 in Sacramento Superior Court.

[Proposition 1E - Title & Summary](#)

[Proposition 1E - Legislative Analysis](#)

[Proposition 1E - Argument in Favor](#)

[Proposition 1E - Rebuttal to Argument in Favor](#)

[Proposition 1E - Argument Against](#)

[Proposition 1E - Rebuttal to Argument Against](#)

[Proposition 1E - Text of Proposed Law](#)

### *Proposition 1F*

This measure would prohibit pay increases for state constitutional officers and legislators in years that the Director of Finance forecasts the Special Fund for Economic Uncertainties to end the year with a negative balance.

California Budget Reform Now, [www.cabudgetreformnow.com](http://www.cabudgetreformnow.com), supports the measure, as they do all of the others. The argument against is signed by an author named Pete Stahl.

[Proposition 1F - Title & Summary](#)

Proposition 1F - Legislative Analysis  
Proposition 1F - Argument in Favor  
Proposition 1F - Rebuttal to Argument in Favor  
Proposition 1F - Argument Against  
Proposition 1F - Rebuttal to Argument Against  
Proposition 1F - Text of Proposed Law

**Action Requested.** Recommend to the CSAC Executive Committee a position of “neutral” on the entire package of measures, Proposition 1A through Proposition 1F.

**Proposition 1A**

ACA 1 (Resolution Ch. 1, 2009-10 3x) Niello.  
State Finance.

Date: February 25, 2009

**BALLOT TITLE AND SUMMARY**

**STABILIZES STATE BUDGET. REFORMS CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES “RAINY DAY” BUDGET STABILIZATION FUND.**

- Increases size of state “rainy day” fund from 5% to 12.5% of the General Fund.
- A portion of the annual deposits into that fund would be dedicated to savings for future economic downturns, and the remainder would be available to fund education, infrastructure, and debt repayment, or for use in a declared emergency.
- Requires additional revenue above historic trends to be deposited into state “rainy day” fund, limiting unsustainable spending of one-time spikes in revenue.

**Summary of Legislative Analyst’s Estimate of Net State and Local Government Fiscal Impact:**

- Higher state tax revenues of roughly \$16 billion from 2010-11 through 2012-13 to help balance the state budget.
- In many years, increased amounts of money in state “rainy day” reserve fund.
- Potentially less ups and downs in state spending over time.
- Possible greater state spending on repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money available to spend on ongoing spending increases.

**SUBJECT TO COURT  
ORDERED CHANGES**

**Proposition 1B**

ACA 2 (Resolution Ch. 2, 2009-10 3x) Bass.  
Education Finance. (Prop. 98 amendments)

Date: February 25, 2009

**BALLOT TITLE AND SUMMARY**

**EDUCATION FUNDING. PAYMENT PLAN.**

- Requires supplemental payments to local school districts and community colleges to address recent budget cuts.
- Annual payments begin in 2011–12.
- Payments are funded from the state’s Budget Stabilization Fund until the total amount has been paid.
- Payments to local school districts will be allocated in proportion to average daily attendance and may be used for classroom instruction, textbooks and other local educational programs.

**Summary of Legislative Analyst’s Estimate of Net State and Local Government Fiscal Impact:**

- Fiscal impact would depend on how current constitutional provisions would otherwise be interpreted.
- Potential state savings of up to several billion dollars in 2009-10 and 2010-11.
- Potential state costs of billions of dollars annually thereafter.

**SUBJECT TO COURT  
ORDERED CHANGES**

**Proposition 1C**  
AB 12 (Ch. 8, 2009-10 3x) Evans. California  
State Lottery.

Date: February 25, 2009

## **BALLOT TITLE AND SUMMARY**

### **LOTTERY MODERNIZATION ACT.**

- Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management.
- Requires the state to maintain ownership of the lottery and authorizes additional accountability measures.
- Protects funding levels for schools currently provided by lottery revenues.
- Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs.

### **Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:**

- Impact on 2009-10 State Budget: Allows \$5 billion of borrowing from future lottery profits to help balance the 2009-10 state budget.
- Impact on Future State Budgets: Debt-service payments on the lottery borrowing and higher payments to education would likely make it more difficult to balance future state budgets. This impact would be lessened by potentially higher lottery profits. Additional lottery borrowing would be allowed.

**SUBJECT TO COURT  
ORDERED CHANGES**

**Proposition 1D**

Date: February 25, 2009

AB 17 (Ch. 11, 2009-10 3x) Evans. Budget  
Act of 2008. California Children and Families  
Act: use of funds: services for children.  
(Prop. 10)

**BALLOT TITLE AND SUMMARY**

**PROTECTS CHILDREN'S SERVICES FUNDING. HELPS BALANCE STATE BUDGET.**

- Provides more than \$600 million to protect children's programs in difficult economic times.
- Redirects existing tobacco tax money to protect health and human services for children, including services for at-risk families, services for children with disabilities, and services for foster children.
- Temporarily allows the redirection of existing money to fund health and human service programs for children 5 years old and under.
- Ensures counties retain funding for local priorities.
- Helps balance state budget.

**Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:**

- State General Fund savings of up to \$608 million in 2009-10 and \$268 million annually from 2010-11 through 2013-14, from temporarily redirecting a portion of funds from the California Children and Families Program in place of state General Fund support of health and human services programs for children up to age five.
- Corresponding reductions in funding for early childhood development programs provided by the California Children and Families Program.

**SUBJECT TO COURT  
ORDERED CHANGES**

**Proposition 1E**

Date: February 25, 2009

SB 10 (Ch. 15, 2009-10 3x) Ducheny. The Mental Health Services Act: Proposition 63 amendments.

**BALLOT TITLE AND SUMMARY**

**ENSURES FUNDING FOR CHILDREN'S MENTAL HEALTH SERVICES. HELPS BALANCE STATE BUDGET.**

- Guarantees that certain funding intended for mental health programs goes toward mental health services for children.
- Provides a temporary, two-year flexibility in the Mental Health Services Act (Proposition 63 of 2004) to allow the state to fund the Early and Periodic Screening, Diagnosis, and Treatment Program for children and young adults under age 21.
- Guarantees and protects more than \$225 million in flexible funding for mental health programs.
- Helps balance state budget during this difficult economic time.

**Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:**

- State General Fund savings of about \$230 million annually for two years (2009-10 and 2010-11) from redirecting a portion of Proposition 63 funds to an existing state program in place of state General Fund support.
- Corresponding reduction in funding available for Proposition 63 community mental health programs.

**SUBJECT TO COURT  
ORDERED CHANGES**

**Proposition 1F**  
SCA 8 (Resolution Ch. 3, 2009-10)  
Maldonado. State officer salary increases.

Date: February 25, 2009

**BALLOT TITLE AND SUMMARY**

**ELECTED OFFICIALS' SALARIES. PREVENTS PAY INCREASES DURING BUDGET DEFICIT YEARS.**

- Encourages balanced state budgets by preventing elected Members of the Legislature and statewide constitutional officers, including the Governor, from receiving pay raises in years when the state is running a deficit.
- Directs the Director of Finance to determine whether a given year is a deficit year.
- Prevents the Citizens Compensation Commission from increasing elected officials' salaries in years when the state Special Fund for Economic Uncertainties is in the negative by an amount equal to or greater than one percent of the General Fund.

**Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:**

- Minor state savings related to elected state officials' salaries in some cases when the state is expected to end the year with a budget deficit.

**SUBJECT TO COURT  
ORDERED CHANGES**