



FEDERAL ELECTION COMMISSION
Washington, DC 20463

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September 19, 2005

AGENDA ITEM

For Meeting of: 09-22-05

SUBMITTED LATE

MEMORANDUM

TO: The Commission

THROUGH: James A. Pehrkon *JAP*
Staff Director

FROM: Lawrence H. Norton *LHN*
General Counsel

Rosemary C. Smith *RCS*
Associate General Counsel

Brad C. Deutsch *BCD*
Assistant General Counsel

Ron B. Katwan *RK*
Attorney

Esa L. Sferra *ELS*
Attorney

Subject: Draft AO 2005-11

Attached is a proposed draft of the subject advisory opinion. We request that this draft be placed on the agenda for September 22, 2005.

Attachment

1 ADVISORY OPINION 2005-11

2 Mr. Kenneth Batson
3 Treasurer
4 Friends of Duke Cunningham
5 P.O. Box 697
6 San Marcos, CA 92079

DRAFT

7
8 Dear Mr. Batson:

9 We are responding to your advisory opinion request on behalf of Friends of Duke
10 Cunningham, Representative Randall “Duke” Cunningham’s principal campaign
11 committee (the “Committee”), concerning the application of the Federal Election
12 Campaign Act of 1971, as amended (the “Act”), and Commission regulations to the use
13 of campaign funds to pay legal fees and expenses incurred by Representative
14 Cunningham in connection with a grand jury investigation. The Commission concludes
15 that the Committee may use campaign funds to pay for the legal fees and expenses
16 incurred in connection with the grand jury investigation and legal proceedings that may
17 arise from this investigation because the investigation concerns allegations that are
18 directly related to Representative Cunningham’s campaign activities or his duties as a
19 Federal officeholder and the legal fees and expenses would not exist irrespective of
20 Representative Cunningham’s campaign or duties as a Federal officeholder. The
21 Committee may also use campaign funds to pay for the legal fees and expenses incurred
22 in responding to the press regarding the grand jury investigation and legal proceedings
23 that may arise from this investigation.

1 **Background**

2 The facts of this request are presented in your letter received on August 3, 2005,
3 and the attachments thereto, as supplemented on August 10, 2005, and on Representative
4 Cunningham's official website.¹

5 Representative Cunningham is the U.S. Representative from the 50th
6 Congressional District of California and is a member of the Permanent Select Committee
7 on Intelligence and the House Appropriations Defense Subcommittee.

8 Your request states that the United States Attorney for the Southern District of
9 California recently convened a grand jury "purporting to investigate matters related to
10 Representative Cunningham's conduct in office and campaign fundraising." The grand
11 jury subpoenaed testimony from Representative Cunningham's Congressional staff, as
12 well as records from the files of his Congressional office. The grand jury also
13 subpoenaed records pertaining to contributions to Representative Cunningham's
14 campaign accounts and the Committee's fundraising activities. Although the details of
15 the grand jury's investigation are not public at this time, the media reports you submitted
16 indicate that the investigation appears to be based on two principal allegations: (1) in
17 November 2003, Mitchell Wade, founder and president of MZM, Inc. ("MZM"), a
18 Federal defense contractor, purchased a house owned by Representative Cunningham
19 allegedly at a price above market value, allegedly in order to support MZM's efforts to
20 secure defense contracts with the U.S. Department of Defense; and (2) Mr. Wade
21 allegedly allowed Representative Cunningham to live rent-free on Mr. Wade's yacht for
22 13 months.

¹ <http://cunningham.house.gov/>

1 ***Questions Presented***

- 2 1. *May the Committee use campaign funds to pay legal fees and expenses incurred by*
3 *Representative Cunningham in connection with the grand jury investigation and*
4 *legal proceedings that may arise from this investigation?*
- 5 2. *May the Committee use campaign funds to pay legal fees and expenses incurred by*
6 *Representative Cunningham in responding to the press regarding the grand jury*
7 *investigation and legal proceedings that may arise from this investigation?*

8 ***Legal Analysis and Conclusions***

9 *Question 1. May the Committee use campaign funds to pay legal fees and expenses*
10 *incurred by Representative Cunningham in connection with the grand jury investigation*
11 *and legal proceedings that may arise from this investigation?*

12 Yes, the Committee may use campaign funds to pay for the legal fees and
13 expenses incurred in connection with the grand jury investigation and legal proceedings
14 that may arise from this investigation because the investigation concerns allegations that
15 are directly related to Representative Cunningham's campaign activities or his duties as a
16 Federal officeholder, or both, and the legal fees and expenses would not exist irrespective
17 of Representative Cunningham's campaign or duties as a Federal officeholder.

18 The Act identifies six categories of permissible uses of contributions accepted by
19 a Federal candidate. They are: (1) otherwise authorized expenditures in connection with
20 the candidate's campaign for Federal office; (2) ordinary and necessary expenses
21 incurred in connection with the duties of the individual as a holder of Federal office; (3)
22 contributions to organizations described in 26 U.S.C. 170(c); (4) transfers, without
23 limitation, to national, State or local political party committees; (5) donations to State and

1 local candidates subject to the provisions of State law; and (6) any other lawful purpose
2 not prohibited by 2 U.S.C. 439a(b). *See* 2 U.S.C. 439a(a); *see also* 11 CFR 113.2(a)
3 through (c).

4 Contributions accepted by a candidate may not, however, be converted to
5 “personal use” by any person. 2 U.S.C. 439a(b)(1); 11 CFR 113.2. Commission
6 regulations define “personal use” as “any use of funds in a campaign account of a present
7 or former candidate to fulfill a commitment, obligation or expense of any person that
8 would exist irrespective of the candidate’s campaign or duties as a Federal officeholder.”
9 11 CFR 113.1(g); *see also* 2 U.S.C. 439a(b)(2).

10 The Act and Commission regulations list a number of expense categories that
11 would constitute *per se* personal use, such as household food items or supplies, clothing,
12 tuition payments, home mortgage, rent, and utility payments. *See* 2 U.S.C. 439a(b)(2);
13 11 CFR 113.1(g)(1)(i). This list does not include legal fees and expenses. The
14 Commission considers on a case-by-case basis whether specific, unlisted uses constitute
15 “personal use.” *See* 11 CFR 113.1(g)(1)(ii). Further, Commission regulations
16 specifically provide a non-exhaustive list of uses, including “legal expenses,” that are
17 subject to a case-by-case examination. 11 CFR 113.1(g)(1)(ii). Accordingly, the
18 Commission analyzes the payment of legal fees and expenses on a case-by-case basis
19 under 11 CFR 113.1(g)(1)(ii)(A).

20 The Commission has previously concluded that any legal fees and expenses
21 incurred in legal proceedings involving allegations relating directly to the candidate’s
22 campaign activities or duties as a Federal officeholder would not exist irrespective of the
23 candidate’s campaign or duties as a Federal officeholder and therefore may be paid for

1 with campaign funds. *See* Advisory Opinions 2003-17, 1998-1, 1997-12, 1996-24, and
2 1995-23.

3 Here, you represent that Representative Cunningham will incur legal fees and
4 expenses associated with a grand jury investigation involving allegations relating directly
5 to Representative Cunningham's campaign activities or duties as a Federal officeholder,
6 or both. According to the media reports you submitted, the grand jury investigation
7 appears to focus on allegations that Representative Cunningham obtained benefits (*i.e.*,
8 the sale of his house at an above-market price and a rent-free stay on a yacht) from Mr.
9 Wade because of his status as a U.S. Representative and his position on the Permanent
10 Select Committee on Intelligence and the House Appropriations Defense Subcommittee.
11 Thus, based on the representations made in your request and the submitted news articles,
12 the Commission concludes that the legal fees and expenses associated with the grand jury
13 investigation would not exist irrespective of Representative Cunningham's campaign or
14 duties as Federal officeholder. Accordingly, the Committee may use campaign funds to
15 pay for legal fees and expenses incurred in connection with the grand jury investigation
16 and legal proceedings that may arise from this investigation.

17 Because the details of the grand jury investigation are not public at this time,
18 however, it is possible that portions of the investigation could involve allegations not
19 directly related to Representative Cunningham's campaign activities or his duties as a
20 Federal officeholder. The use of campaign funds to pay for Representative
21 Cunningham's representation in legal proceedings regarding any allegations that are not
22 directly related to his campaign activity or duties as a Federal officeholder would
23 constitute an impermissible personal use. See Advisory Opinion 2003-17; see also

1 Advisory Opinion 1993-15 (determining that counts within an indictment could be
2 severed, depending upon whether the counts were related to campaign activity).

3 *Question 2. May the Committee use campaign funds to pay legal fees and expenses*
4 *incurred by Representative Cunningham in responding to the press regarding the grand*
5 *jury investigation and legal proceedings that may arise from this investigation?*

6 Yes, the Committee may use campaign funds to pay for the legal fees and
7 expenses incurred in responding to the press regarding the grand jury investigation and
8 legal proceedings that may arise from this investigation.

9 In the past, the Commission has determined that legal fees and expenses incurred
10 to respond to the press concerning allegations that are directly related to the candidate's
11 campaign activities or duties as a Federal officeholder would not exist irrespective of the
12 candidate's campaign or duties as a Federal officeholder and therefore may be paid for
13 with campaign funds. *See* Advisory Opinions 1998-1, 1997-12. Accordingly,
14 Representative Cunningham may use campaign funds to pay for the legal fees and
15 expenses incurred in responding to the press regarding the grand jury investigation and
16 legal proceedings that may arise from this investigation.

17 The Commission notes that in the event that the grand jury investigation involves
18 allegations that are *not* directly related to Representative Cunningham's campaign
19 activities or his duties as a Federal officeholder, the Committee may also be permitted to
20 use campaign funds to pay for certain legal fees and expenses incurred in responding to
21 press inquiries and stories involving the grand jury and legal proceedings arising from it.
22 *See* Advisory Opinions 1998-1 and 1997-12. In these Advisory Opinions, the
23 Commission concluded that for allegations not directly related to campaign or

1 officeholder activity, campaign funds may be used to pay for 100% of any legal fees and
2 expenses related directly and exclusively to dealing with the press such as preparing a
3 press release, appearing at a press conference, or meeting or talking with reporters.
4 Campaign funds may also be used to pay for 50% of any other legal fees and expenses
5 incurred in researching and preparing substantive responses to the press regarding
6 allegations not directly related to campaign or officeholder activity.

7 In accordance with 11 CFR 102.9(b) and 104.11(b), the Committee must maintain
8 appropriate documentation of any disbursements made to pay legal fees and expenses
9 incurred in connection with the grand jury investigation and legal proceedings that may
10 arise from this investigation, including legal fees and expenses incurred in responding to
11 the press. *See* Advisory Opinion 2003-17. In addition, the Committee must report all
12 funds disbursed for such legal fees expenses as operating expenditures, with the purpose
13 noted. 11 CFR 104.3(b)(2) and (b)(4)(i); Advisory Opinions 2003-17, 1998-1, 1997-12,
14 and 1996-24.

15 The Commission expresses no opinion regarding the application of state law and
16 Federal tax or other law, or the rules of the House of Representatives to the proposed
17 activities, because those questions are not within the Commission's jurisdiction.

18 This response constitutes an advisory opinion concerning the application of the
19 Act and Commission regulations to the specific transaction or activity set forth in your
20 request. *See* 2 U.S.C. 437f. The Commission emphasizes that, if there is a change in any
21 of the facts or assumptions presented, and such facts or assumptions are material to a
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1 conclusion presented in this advisory opinion, then the requestor may not rely on that
2 conclusion as support for its proposed activity.

3

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Sincerely,

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8

Scott E. Thomas

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Chairman

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12 Enclosures (Advisory Opinions 2003-17, 1998-1, 1997-12, 1996-24, 1995-23, and 1993-
13 15)