



FEDERAL ELECTION COMMISSION

1125 K STREET N.W.
WASHINGTON, D.C. 20463

THIS IS THE END OF MUR # 983

Date Filmed 7/31/79 Camera No. --- 2

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BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
)
Republican National Committee)

MUR 983

CERTIFICATION

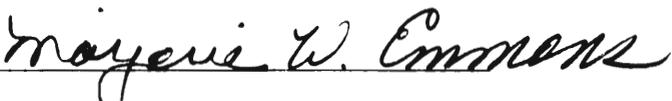
I, Marjorie W. Emmons, Secretary to the Federal Election Commission, certify that on July 11, 1979, the Commission, meeting in an executive session at which a quorum was present, determined by a vote of 4-0 to close the file on MUR 983.

Commissioners Aikens, Friedersdorf, Harris, and McGarry voted affirmatively for this determination; Commissioner Tiernan abstained on the vote; Commissioner Thomson was not present at the time of the vote.

Accordingly, the file on MUR 983 has been closed.

Attest:

7/16/79
Date


Marjorie W. Emmons
Secretary to the Commission



FEDERAL ELECTION COMMISSION

WASHINGTON, DC 20463

MEMORANDUM TO: CHARLES STEELE

FROM: MARJORIE W. EMMONS

DATE: JULY 9, 1979

SUBJECT: OBJECTION - MUR 983 - Addendum to First
General Counsel's Report dated
July 3, 1979: Received in OCS
7-3-79, 4:53

The above-named document was circulated on a 48 hour
vote basis at 11:00, July 5, 1979.

Commissioner Friedersdorf submitted an objection at
11:09, July 9, 1979, thereby placing MUR 983 on the
Executive Session Agenda for Wednesday, July 11, 1979.

July 3, 1979

MEMORANDUM TO: Marge Emmons
FROM: Elissa T. Carr
SUBJECT: MUR 983

Please have the attached Addendum to the First CC Report on MUR 983 distributed to the Commission on a 48 hour tally basis.

Thank you.

BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
) MUR 983
Republican National Committee)

79 JUL 3 P 4: 53

ADDENDUM
TO FIRST GENERAL COUNSEL'S REPORT

On June 12, 1979, the Commission discussed the attached First General Counsel's Report and requested further comment regarding 2 U.S.C. § 431(e)(5)(H). This section provides that any gift, loan, advance, deposit, or other thing of value given to a national or state party committee that is specifically designated for defraying costs incurred with respect to the building or purchase of an office facility is not a contribution, although such must be reported. There is little legislative history relevant to this section of the Act; however, comments during the mark-up session indicate that the sole purpose of this provision was to allow contributions to pay off the debt on the Republican headquarters. Conference mark-up, 1976 FECA Amendments at 24 (remarks of Representative Hays) (April 7, 1976). There is no discussion of an exemption concerning rental agreements.

Although this 1976 amendment to the Act exempts construction or sale of office facilities and does not address rental agreements, the Commission may want to consider its interpretation of this provision, as a matter of policy, to encompass lease

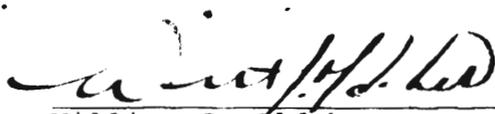
agreements. 1/ Inasmuch as the facts provide evidence of a significant discrepancy between the RNC's rental payments and the estimated fair market value, we recommend that this matter be investigated as set out in the attached First General Counsel's Report.

Recommendations

1. Find reason to believe that the Republican National Committee violated 2 U.S.C. § 441b(a) by accepting corporate contributions.
2. Find reason to believe that Capitol Hill Associates, Inc., violated 2 U.S.C. § 441b(a) by making corporate contributions to a political committee in connection with Federal elections.
3. Send the attached letters.

Date

7/3/79



William C. Oldaker
General Counsel

Attachment:

First General Counsel's Report
Letters (2)

-
- 1/ To interpret § 431(e)(5)(H) to include lease agreements would require liberal construction in that a lease agreement does not entail a transfer of property and does not appear to come within the ambit of the plain language of § 431e(5)(H).

FEDERAL ELECTION COMMISSION

FIRST GENERAL COUNSEL'S REPORT

DATE AND TIME OF TRANSMITTAL
BY OGC TO COMMISSION JUN 4 1979

79 JUN 4 P 4: 18
MUR NO. 983
STAFF MEMBER(S) D. Higgins

SOURCE OF MUR: I N T E R N A L L Y G E N E R A T E D

RESPONDENT'S NAME: Republican National Committee

RELEVANT STATUTE: 2 U.S.C. § 441b(a)

INTERNAL REPORTS CHECKED:

FEDERAL AGENCIES CHECKED:

DESCRIPTION OF MATTER

This matter was referred to the Office of General Counsel on the basis of findings made by the Audit Division during an ongoing audit of the Republican National Committee and its affiliates.

SUMMARY OF ALLEGATIONS

That the Republican National Committee violated 2 U.S.C. § 441b(a) by knowingly accepting corporate contributions.

That Capitol Hill Associates, Inc., violated 2 U.S.C. § 441b(a) by making corporate contributions to a political committee.

PRELIMINARY LEGAL ANALYSIS

During the audit of the Republican National Committee, ("the RNC"), the auditors determined that the RNC leased headquarters office space from Capitol Hill Associates, Inc., ("CHA") from July 1970 through May 1978. In May of 1978, the RNC purchased the headquarters building from CHA, a corporation organized in 1950 with a primary objective of constructing and leasing office buildings to the RNC and affiliated organizations.

The auditors noted that during the period from July 1972 to September 1976, the RNC paid CHA an annual rent of \$128,700 for 50,519 square feet of office space in their headquarters building. In September of 1976, the rental charge was increased \$1,500 per month to an annual total of \$146,700. Under the terms of the rental agreement, the \$1,500 monthly increased rental payments were credited towards the RNC's eventual purchase of the building. This credit was reflected in the sales settlement papers in May of 1978. Thus, the RNC effectively paid CHA annual rent totaling \$128,700 for the period July, 1972, to May, 1978.

The \$128,700 annual rent for 50,519 square feet of office space converts to a rental payment of \$2.55 per square foot, with the RNC paying its own operating expenses. The RNC cited a report of an estimate prepared by a realty broker in December 1975 stating that the annual rent was "far below the current average rate for comparable space in the Washington area." The estimate indicated that comparable office space in the Capitol Hill area would rent for \$7.75 - \$8.00 per square foot. (In that the RNC paid its own operating expenses, it is necessary to adjust that figure to reflect an allowance for operating expenses. Using RNC's figures, the cost per square foot would be reduced to \$4.34 - \$4.48 per annum). Applying this rental rate to the 50,519 square feet of office space in the RNC headquarters' building, the comparable annual rental rate of an office in the Capitol Hill area would be between \$219,200 and \$226,300 per annum. Comparing this with the rent actually paid by the RNC shows that the RNC may have benefited from its lease arrangement with CHA by paying from \$90,500 to \$97,600 less than full market value for its headquarters' office space.

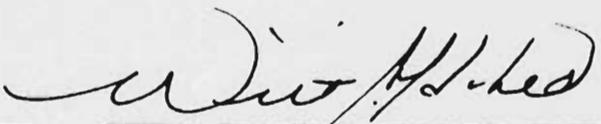
<u>LOCATION</u>	<u>ESTIMATED RANGE OF ANNUAL RENT</u>	
	<u>Minimum</u>	<u>Maximum</u>
Capitol Hill	\$219,200	\$226,300
RNC Headquarters	(128,700)	(128,700)
Difference	<u>\$ 90,500</u>	<u>\$ 97,600</u>

In that corporations are prohibited from making contributions in connection with any election to Federal office and political committees are prohibited from knowingly accepting a contribution from any corporation, the benefit received by the RNC and the apparent reduced rental agreement provided by CHA may have resulted in violations of 2 U.S.C. § 441b(a).

RECOMMENDATIONS

1. Find reason to believe that the Republican National Committee violated 2 U.S.C. § 441b(a) by accepting corporate contributions.
2. Find reason to believe that Capitol Hill Associates, Inc., violated 2 U.S.C. § 441b(a) by making corporate contributions to a political committee in connection with Federal elections.
3. Send the attached letters.

5/29/79
Date


William C. Oldaker
General Counsel

Attachments:

- Audit Referral
- Letters (2)
- Attachment I
- Attachment II

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Gross

A. 432



FEDERAL ELECTION COMMISSION

1325 STREET, N.W.
WASHINGTON, D.C. 20463

May 3, 1979

MEMORANDUM

TO : BILL SUDAHER

THROUGH : HERMAN B. POTTER *HP*
FIRST DIRECTOR

FROM : *RE* ELS COSTA/RICK HALTER/DAN BOYLE *R.B. for*

SUBJECT : LEASE ARRANGEMENT BETWEEN THE REPUBLICAN NATIONAL COMMITTEE (RNC) AND CAPITOL HILL ASSOCIATES, INC. (CHA)

The Audit staff has recently completed the fieldwork of an audit of the Committee to Preserve the National Republican Center ("the Committee"), an affiliated committee of the RNC. The Committee was formed in June 1977 for the purpose of purchasing the headquarters of the RNC located at 310 First Street, S.E. in Washington, D.C. In May, 1978, the Committee, by means of contributions raised from various sources, loans from the RNC, and the assumption of a mortgage of \$925,091.10, purchased the headquarters building.

During the fieldwork, the Audit staff was able to determine that, prior to the purchase of the headquarters building, the RNC leased the building from CHA, a corporation organized in 1950 by a group made up principally of Republican members of the U.S. Senate and House of Representatives. Since inception, the primary objectives of CHA have been (1) to promote the creation and development of a club for Republicans from all parts of the country, (2) to acquire and lease to such club, once it became established, property and facilities for club use, and (3) to construct near the club, office buildings to house the RNC and affiliated organizations.

In July 1972, upon completion of the RNC headquarters building, the RNC moved to the new building. The construction of the Capitol Hill Club ("the Club") was completed in February 1972, at which time the Club took occupancy. In October 1975, the Club purchased the property and building which it had occupied since February 1972. The RNC did not purchase their headquarters and property until May 1978.



The problem uncovered by the Audit staff during the audit fieldwork involves the amount of rent paid by the RNC to CHA during the period from July 1970 to May 1978. From July 1970 to June 1972, a rental agreement between RNC and CHA was in effect which provided for the RNC to pay a rental amount (\$230,000 per annum) which included all operating expenses of the building. In July 1972, the RNC exercised an option in their lease agreement to pay all operating expenses directly, thereby reducing the annual rent to \$128,700, a reduction of 44%. ^{1/} According to a CHA statement dated March 24, 1978, the RNC continued to pay this amount until September 1976, when the rent was increased \$1,500 per month or to \$146,700 annually. It should be noted that the RNC was to be given full credit (\$1,500/month) toward the eventual purchase of the building for each month that the RNC paid the rent increase. The settlement papers on the purchase indicated a \$31,500 credit toward the purchase price of the building, which represents the increased rental payment from September 1976 to May 1978, a period of twenty-one months. Therefore, due to the fact that the RNC received full credit for each month that it paid the \$1,500/month increase, the increase will not be considered as part of the annual rental payment in calculations performed later in this memo.

According to Section 441b(a) of the Act, corporations are prohibited from making a contribution in connection with any election to Federal office and political committees are prohibited from knowingly accepting a contribution from any corporation.

^{1/} This percentage is based solely on the reduction of rent as agreed to by CHA and the RNC. It has, in no way, been verified to actual cost of operating expenses because the reduction occurred in 1972, for which no records were available for review.

In a memorandum to the RNC chairman dated December 2, 1975 from an unidentified source at CHA which concerns itself with the fair rental value of the RNC headquarters, it is pointed out that rental values for comparable properties in Washington are substantially higher. For the period from January 1976 to May 1978 according to the terms of the lease agreement, the RNC paid \$128,700 per annum ^{2/} for 50,519 square feet of office space in the headquarters building. This converts to a rental payment of \$2.55 per square foot, with the RNC paying the operating expenses. In the Capitol Hill area, the memo indicated that comparable office space would rent for \$7.75-\$8.00 per square foot. ^{3/} This rate, however, includes operating expenses, therefore an adjustment must be made to eliminate operating expenses from this rental estimate. Using the adjustment (a reduction of 44%) made by CHA when RNC exercised the option to assume the operating expenses, the rental value estimate for the Capitol Hill area is \$4.34-4.48/sq. ft. In order to calculate on an annual basis the amount RNC benefits from their apparent less than normal rental charge, it is necessary to apply the square footage contained in the RNC headquarters. According to the aforementioned memorandum to the RNC chairman, the architect's estimate of square footage in the RNC headquarters building is 50,519 sq. ft. Applying this square footage to the above space in the Capitol Hill area the comparable annual rent for this area would be \$219,200 - 226,300. In comparing this annual rental estimate to the annual rent of the RNC headquarters (\$128,700), it is obvious that the RNC benefited from the lease arrangement with CHA as follows:

<u>LOCATION</u>	<u>ESTIMATED RANGE OF ANNUAL RENT</u>	
	<u>Minimum</u>	<u>Maximum</u>
Capitol Hill	\$219,200	\$226,300
RNC Headquarters	<u>(128,700)</u>	<u>(128,700)</u>
Difference	<u>\$ 90,500</u>	<u>\$ 97,600</u>

^{2/} As mentioned before on page 2 of this memo, the \$1,500/month increase (or \$18,000/year) is not considered as rent, therefore is not included in these calculations.

^{3/} These figures represent the estimate of an independent realty brokerage firm in Washington, namely Julien J. Studley, Inc. The memo also indicates a comparison with rental property values in the K Street-Connecticut Avenue corridor. The realty brokerage firm estimates the rental value for this location @ \$8.50-9.50 per square foot, which also includes all operating expenses.

Therefore, it is the conclusion of the Audit staff that the amount of rent apparently paid by the RNC from January 1976 to May 1978 was less than the normal charge for comparable office space. Further, the Audit staff is of the opinion that the money saved by the RNC, due to this lease arrangement with CHA, which is a corporation, could conceivably have been used by the RNC to support federal candidates, in violation of Section 441b(a) of the Act.

The Audit staff recommends that this matter be reviewed by OGC and considered as a possible MUR. If you have any questions regarding this matter, please contact either Russ Bruner or Dan Boyle at extension 3-4155.

Auditor's Note:

The Audit staff is currently engaged in the fieldwork of the audit of the RNC-Expenditure Committee. Verification of rental payments by the RNC to CHA will be performed by a review of the cancelled checks and appropriate documentation from January, 1976 through May, 1978.

The Dwight D. Eisenhower National Republican Center

December 2, 1975

Receipt

General Dwight D. Eisenhower
 Honorary Chairman
 1951-1959

Theodore H. Danforth
 Chairman of the Board

Fred L. Dixon
 Resident

MEMORANDUM FOR: Mrs. Mary Louise Smith
 Chairman
 The Republican National Committee

RE: The Republican National Committee Building

Background:

Capitol Hill Associates, Inc. was organized primarily (1) to promote the creation and development of a Club for Republicans from all parts of the Country, (2) to acquire and lease to the Club property and facilities for its use, and (3) to construct near the Club office buildings to house the Republican National Committee and affiliated organizations. The Company was instrumental in the founding of the Capitol Hill Club and in the acquisition of property for the Club to use. In 1967 Associates offered its stock for sale to the public and the proceeds of that fairly successful offering along with several commercial loans made it possible for Associates to construct the Eisenhower National Republican Center. With the completion of the Club building in 1972, the Company's initial objectives were for the most part accomplished.

Rental payments from the Club and Committee buildings have in recent years been the Company's only source of income. Since 1972 when the Committee began renting its building on a net lease basis, the Club lease has provided the Company's only operating funds. On October 10, 1975 the Club purchased its building from Associates. The Company now has no significant source of continuing income, and as a result, the Board of Directors has concluded that to avoid a wasting of corporate assets, the Company must attempt to sell its remaining property, the Committee building. It is anticipated that Associates would, upon selling the Committee building, liquidate the Company and distribute the proceeds of the sale to its shareholders.

Memorandum for Mrs. Smith

Option:

The RNC lease, as amended, grants the Committee the option to purchase the land and building at a price equal to "the un-depreciated cost of the land and building (including in such cost real estate taxes and other carrying charges on the land prior to completion of construction of the building, together with annual interest on construction costs during the period of construction at a rate per annum that is one percentage point above the prime rate)". The accountants for Associates recently estimated the adjusted cost of the land and building to be \$1,550,990. The option in the lease provides for a payment of at least 20% of the option price in cash with the balance to be secured by a 20 year mortgage with interest at 6%. The property is at the present time subject to a mortgage to the Travelers Insurance Company. The accountants report that as of November 17, 1975 the balance due on the mortgage was approximately \$1,018,000.

House Office Building Commission Agreement:

Associates was, in order to obtain the necessary governmental consent to permit construction of the Club and Committee buildings, required to execute an agreement with the House Office Building Commission. The agreement, as amended, grants to the Government the right of first refusal in the event of a proposed sale of the Committee building to any party other than the Republican National Committee. The purchase price under the agreement is the lesser of (a) the actual cost of the land plus the cost of improving the land, namely zoning, construction and other improvement costs as well as real estate taxes prior to completion of original construction or (b) the fair market value as determined by appraisal. Provisions of the agreement have been recorded among the land records of the District of Columbia, and by the terms of the agreement, the right of first refusal also applies to any proposed sale by a future purchaser. In view of the critical shortage of House Office space as is evident from recent moves to have the House occupy the new Madison Library, there seems to be little doubt that the Government would exercise its right of first refusal if the Committee building were offered for sale.

Present Value of the Property:

Architects' appraisal: Associates recently requested Chatelain, Samperton and Nolan, the original architects of the Committee building to estimate the cost of reproducing the existing facilities in the same general Capitol Hill area. The architects estimate that it would cost approximately \$2,500,000 to build the Committee building today.

Memorandum to Mrs. Smith

(The low bid submitted by the George Hyman Construction Company in 1969 was \$1,190,000) The present value of the land, estimated by the architects to be \$643,500, must then be added to the cost of the building to determine the total cost of approximately \$3,143,500 to reproduce the existing RNC facilities. The architects have in the process of preparing this estimate advised Associates that the building contains 50,519 square feet of space and that the land covers an area of 14,300 square feet.

Appraisal by Joseph L. Donnelly: In 1973 the RNC commissioned Joseph L. Donnelly to provide a professional appraisal of the fair market value of the property occupied by the Committee. By letter dated October 16, 1973, Mr. Donnelly advised the RNC that he estimated the value of the property to be \$1,500,000. This appraisal did not include the adjoining parking lot which was, in a separate letter dated October 16, estimated to have a fair market value of \$195,000.

The appraisers employed by the RNC provided figures on several different methods of appraising the property (excluding the parking lot) as follows:

Cost Approach	\$ 1,645,000
(land sales -	
average \$37.50 / sq.	
ft.)	
Income Approach - Property	\$ 1,354,736
Residual Method	
(Rental rates	
\$3.50 / sq. ft. for the	
upper floors	
\$3.00 / sq. ft. for	
basement Two - and	
\$25.00 / mo. for the	
18 parking spaces in	
basement One	
Market Approach	\$1,500,000
(Building sale - average	
\$30.00 / sq. ft..)	

The Donnelly figures are based on approximately 28,400 sq. ft. of rental space in the upper floors, 8,000 sq. ft. of rental space in basement Two, and 8,000 sq. ft. of garage and storage space area in basement One.

It should be noted that this appraisal is slightly over two years old and real estate prices have risen dramatically since October 1973. Chatelain, Samperton and Nolan used \$49.45 per sq. ft. in calculating the current building cost and \$45.00 per sq. ft. in estimating the value of the land.

Washington Rental Market:

Associates has, on an undisclosed basis, recently contacted the realty brokerage firm of Julien J. Studley, Inc. to obtain general information concerning the existing rental market in downtown Washington. Office space in the very desirable K Street - Connecticut corridor is currently renting at from \$8.50 to \$9.50 per sq. ft. Mrs. Barbara L. Pryor, Vice President of Julien J. Studley, Inc. advises that future rental may be expected to be at least 5% higher each year as a result of rapidly increasing operating expenses. The current rental term for space in a new building is at least five years and ten years is common for rental of 30,000 sq. ft. or more.

Adequate alternate office rental space in the Capitol Hill area does not appear to be available. The new building at 400 North Capitol Street will have a total of 560,000 sq. ft. for rent, but according to Mrs. Pryor, the construction specifications contemplate full occupancy by a large government agency. Construction specifications in the Committee building meet the more desirable commercial standards found in the K Street - Connecticut Avenue area. Rental rates for 400 North Capitol Avenue, nevertheless, are expected to be in the \$7.75 to \$8.00 range.

Rent under the current RNC lease is \$128,700 per year. Based on the architects figure of 50,519 sq. ft. of building space, the Committee is paying less than \$2.50 per sq. ft. and this does not include use of the parking lot adjoining the building.

Since Washington office space is generally rented with full services provided, some adjustment should be made to reflect the fact that the RNC has under the terms of the lease agreed to assume the operational expenses of the building. The rent as adjusted will, nevertheless, clearly be far below the current average rate for comparable space in the Washington area.

Conclusion:

Under the existing lease the Committee building does not provide the funds necessary for Associates to continue to meet its corporate obligations. With the sale of the Club building, a sale of the Committee property and liquidation of Associates appears desirable. By purchasing the property the RNC can insure the permanent use of its excellent facilities. A sale of the Committee building to the RNC at a mutually agreeable price would be highly beneficial to both parties.

The supporting materials from accountants, architects and other sources are available for Committee use if desired.

CAPITOL HILL ASSOCIATES, INC.

310 First Street, S. E.
Washington, D. C. 20003

March 24, 1978

To the Holders of Class A Common Stock (Voting Stock)
and Class B Common Stock (Non-Voting Stock)

Capitol Hill Associates, Inc. has entered into a Purchase Agreement to sell, subject to approval of the Class A voting stockholders, its remaining property to the Republican National Committee. The Purchase Agreement is part of a Plan of Complete Liquidation and Dissolution under which the Company, subject to the approval of the Class A stockholders, would sell its property to the Committee, make distributions in liquidation to the holders of Class A Common Stock and Class B Common stock, *pro rata*, without distinction as to class, and then dissolve.

The proposed Plan of Liquidation has been considered and approved by your Board of Directors who believe it to be in the best interest of all stockholders. You are therefore urged to study the enclosed materials carefully so as to make your own determination as to the advisability of the dissolution of the Company.

As noted in the enclosed proxy statement, management estimates that, if the Company is dissolved, each Class A and Class B stockholder should receive an aggregate of approximately \$55.00 per share as a cash liquidating distribution. Such estimate assumes a favorable tax ruling from the Internal Revenue Service and is further based on other assumptions and conditions set forth in the proxy statement.

Enclosed with this letter is a notice of a special meeting of the Class A stockholders, proxy statement with appropriate exhibits and proxy card. The principal matters to be considered at the meeting are the sale of the Company's property, the liquidation and dissolution of the Company, and related matters. Affirmative votes representing at least a majority of the Class A Stock are required for approval of the sale and adoption of the Plan of Liquidation. I would appreciate your signing the proxy card and returning it as soon as possible. Even though you may own only a few shares, your vote is important.

Copies of the material sent to the Class A stockholders are being sent to the Class B stockholders.

Very truly yours,

FRED L. DIXON
President

BUSINESS OF THE COMPANY

Associates was organized under the laws of Delaware in 1950 with the primary objectives of promoting the creation and development of a club in the District of Columbia for Republicans from all parts of the country and of constructing and leasing office buildings near the club to the Republican National Committee and affiliated organizations. Two of the three buildings originally contemplated were constructed and are the site of the Dwight D. Eisenhower National Republican Center which was dedicated in January 1972. In October 1975, Associates sold to the Capitol Hill Club ("Club") the lot and building occupied by the Club. The sole remaining asset of the Company is the building and lot now rented by the Republican National Committee under a net lease arrangement.

For further information concerning the sale of the property to the Club and the Company's business and present property, see *Item 1. Business* in the 1977 Annual Report annexed hereto.

FINANCIAL STATEMENTS

Audited financial statements of the Company, consisting of Balance Sheets at January 31, 1977 and 1978, Statements of Income and Retained Earnings for the years ended January 31, 1976, 1977 and 1978 and related Statements of Changes in Financial Position, Notes to the Financial Statements, and supplementary Schedules are contained in the 1977 Annual Report. An unaudited Summary of Earnings (Loss) for the last five fiscal years is also contained in the 1977 Annual Report.

PROPOSED LIQUIDATION AND DISSOLUTION

Reasons for Proposed Liquidation

As noted above, Associates was organized primarily to promote the creation and development of a club in the District of Columbia for Republicans, to construct and lease to such club a facility for its use and to construct and lease office buildings near the club to the Republican National Committee ("RNC") and affiliated organizations. The Company has therefore never been operated as a commercial enterprise in the usual sense.

In the hope of raising construction funds, Associates in 1967 offered its Class B Common Stock (Non-Voting Stock) for sale to the public. The initial efforts were fairly successful and the RNC and Capitol Hill Club buildings were financed in part by the public offering but primarily by several loans from the Travelers Insurance Company. Management hoped that continued sales of the Class B stock would furnish proceeds to reduce the outstanding mortgages on the property. Such sales lagged however, and in 1974 the Board reluctantly concluded that the public offering should be terminated.

Rental payments from the leases with the Club and the RNC were for a number of years the Company's only source of income—income which was offset by the interest expenses and amortization of the Company's debt. Primarily because of these expenses and depreciation charges, Associates has had operating losses in all but two of the last ten years. For the fiscal year ending January 31, 1976, the Company had earnings due to an extraordinary gain as a result of the sale to the Club of the building and lot rented by the Club. For the most recent fiscal year, Associates showed a small profit primarily due to an increase in the rental payments made by the RNC.

Since the sale of the Club property in October 1975, the sole asset of the Company has been the land and building now rented by the RNC. Such property is rented, however, on a net lease basis and consequently provides little operating income to the Company. Further, the Company's indebtedness to Travelers (secured by the land and building rented to the RNC) matures in July, 1980 at which time a balloon payment of approximately \$831,500 is due. Unless the indebtedness could be refinanced, Associates would be in default on the debt at that time. For these reasons and the fact that the construction of the RNC and Club buildings have for the most part accomplished the principal initial objectives of the Company, the Board of Directors concluded some time ago that a sale of its remaining property to the RNC and subsequent liquidation and dissolution of the Company would be desirable.

Summary of Proposed Liquidation

The Board of Directors of the Company at a meeting on January 30, 1978, approved proposals to liquidate and dissolve the Company. At such meeting the Board approved a Plan of Complete Liquidation and Dissolution ("Liquidation Plan") and of a Purchase Agreement providing for the sale of the Company's remaining property to the RNC under certain conditions. The Board also directed that the Liquidation Plan and Purchase Agreement be submitted for adoption and approval to the Class A stockholders of the Company at a meeting to be called for that purpose. The following is a summary of the terms of and transactions contemplated by the Liquidation Plan, the Purchase Agreement and related documents. A copy of the Liquidation Plan is annexed hereto as Exhibit II; a copy of the Purchase Agreement is filed herewith as attachment A to the Liquidation Plan. The summary is qualified by reference to such documents.

Terms of Sale. The proposed liquidation of the Company is based upon the sale of the Company's remaining assets to the RNC pursuant to a Purchase Agreement dated February 24, 1978 between the Company and the RNC, as amended ("Purchase Agreement"). Assuming a sale in April, 1978, the purchase price for such assets will be approximately \$1,521,000, determined as follows.

On February 14, 1968, Associates and the RNC entered into a lease agreement regarding rental by the RNC for a term of 20 years of a building to be constructed and completed by Associates within 30 months of the date of the lease. (The RNC took occupancy in July, 1970). Pursuant to the terms of the agreement, the RNC was granted the option at any time during the term of the lease to purchase the building and underlying land to be leased by the RNC, the purchase price to be the undepreciated cost, as defined, of such property. Such cost is approximately \$1,434,000. In September, 1976, the lease agreement was revised to increase the monthly rental by \$1,500, and to provide that the purchase price to the RNC for the property would be reduced by the sum of \$1,500 times the number of months that elapse between September 1, 1976 and the exercise by the RNC of its option. The purchase price of an adjoining parking lot being leased by the RNC is also the undepreciated cost of such land—approximately \$117,000. Thus the aggregate undepreciated cost of the building and land now being rented by the RNC is approximately \$1,551,000 reduced by the sum of approximately \$30,000, resulting in a purchase price to the RNC of approximately \$1,521,000.

The property is subject to a first mortgage in the amount of approximately \$932,000 as of March 1, 1978, which mortgage the lender, Travelers Insurance Company, has agreed may be assumed by the RNC in whole or in part. Travelers has also agreed that at such time as title to the property passes to the RNC and RNC either pays in full the mortgage or assumes the mortgage and continues the first lien on the property then Associates is relieved of all obligations to Travelers.

Under the terms of the Purchase Agreement, the sale to the RNC is subject to the conditions, among others, (1) that the voting stockholders of Associates shall have approved the Liquidation Plan and Purchase Agreement at a meeting called for those purposes, (2) that the Company shall have obtained a ruling from the Internal Revenue Service satisfactory to counsel that the Company, under Section 337 of the Internal Revenue Code, will not recognize a gain in connection with the sale of the property, that stockholders, under Section 331 of the Code, will realize capital gain or loss upon receipt of liquidating distributions, and (c) that the RNC shall have obtained by the date of purchase the sum of at least \$600,000 to be applied toward the purchase price of the property. Management of Associates has no reason to believe that these or other conditions of the Purchase Agreement will not be satisfied. However, if for any reason the sale is not consummated, the Board of Directors has the right to abandon the Liquidation Plan.

Dissolution Procedures. In the event the Liquidation Plan and Purchase Agreement are approved at the meeting of the Class A stockholders, and assuming receipt of a favorable tax ruling, it is anticipated that the Company would sell its remaining assets to the RNC within two weeks of the meeting and shortly thereafter file a certificate of dissolution with the State of Delaware. Upon such certificate becoming effective, the Company is dissolved and thereafter continues for a period of three years a body corporate for the purposes of maintaining a liquidating status and closing down the business of the Company, including the defense or prosecution of claims or suits, discharge of debts and liquidation expenses and the payment of liquidation distributions to stockholders. Thus, management, once the dissolution certificate is effective, will take only such action as is necessary or appro-



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Robert Carter
Treasurer
Republican National Committee
310 First Street, S.E.
Washington, D.C. 20003

Re: MUR 983

Dear Mr. Carter:

This letter is to notify you that on the basis of information ascertained in the normal course of carrying out its supervisory responsibilities, the Federal Election Commission has determined that it has reason to believe that your Committee has violated the Federal Election Campaign Act, as amended (the "Act"), by leasing office space from Capitol Hill Associates, Inc. (CHA, Inc.) at a rental rate substantially less than full market value from May 1976 to May 1978 resulting in a possibly illegal receipt of a corporate contribution from CHA, Inc.

Under 2 U.S.C. § 441b(a), political committees are prohibited from knowingly accepting contributions from corporations.

Upon making a determination that there is reason to believe that a violation has occurred, the Commission is required to make an investigation and to afford your Committee a reasonable opportunity to demonstrate that no action should be taken. As part of this process, please submit, within 10 days of receipt of this letter, any factual or legal materials which you deem relevant to the Commission's investigation of this matter.



This letter will remain confidential in accordance with 2 U.S.C. § 437g(a)(3) unless you state to the Commission in writing that you wish the investigation to be made public. The staff member assigned to this matter is Dan Higgins, who can be reached at (202) 523-4166.

Sincerely,

William C. Oldaker
General Counsel



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Fred L. Dixon
President
Capitol Hill Associates, Inc.
310 First Street, S.E.
Washington, D.C. 20003

Re: MUR 983

Dear Mr. Dixon:

This letter is to inform you that on the basis of information ascertained in the normal course of carrying out its supervisory responsibilities, the Federal Election Commission has determined that it has reason to believe that Capitol Hill Associates, Inc., has violated the Federal Election Campaign Act, as amended (the "Act"), by leasing office space to the Republican National Committee ("RNC") for substantially less than full market value from May 1976 to May 1978, resulting in a possible illegal corporate contribution to the RNC. Under 2 U.S.C. § 441b(a), corporations are prohibited from making contributions in connection with any election to federal office.

Upon making a determination that there is reason to believe that a violation has occurred, the Commission is required to make an investigation and to afford you a reasonable opportunity to demonstrate that no action should be taken. As part of this process, please submit within 10 days of receipt of this letter any factual or legal materials which you deem relevant to the Commission's investigation of this matter.



This letter will remain confidential in accordance with 2 U.S.C. § 437g(a)(3) unless you state to the Commission in writing that you wish the investigation to be made public. The staff member assigned to this matter is Dan Higgins, who can be reached at (202) 523-4166.

Sincerely,

William C. Oldaker
General Counsel

cc: Robert Carter, Treasurer
Republican National Committee



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

MEMORANDUM TO: CHARLES STEELE
FROM: MARJORIE W. EMMONS *mwe*
DATE: JUNE 7, 1979
SUBJECT: OBJECTION - MUR 983 - Frist General Counsel's
Report dated 6-4-79; Received in
OCS 6-4-79, 4:18

The above-named document was circulated on a 48
hour vote basis at 11:00, June 5, 1979.

Commissioner Thomson submitted an objection at 4:37,
June 6, 1979, thereby placing MUR 983 on the Executive
Session Agenda for June 12, 1979.

W.D. Thomson

June 4, 1979

MEMORANDUM TO: Marge Emmons
FROM: Elissa T. Garr
SUBJECT: MUR 983

Please have the attached First General Counsel's Report on MUR 983 distributed to the Commission on a 48 hour tally basis.

Thank you.

FEDERAL ELECTION COMMISSION

FIRST GENERAL COUNSEL'S REPORT

DATE AND TIME OF TRANSMITTAL
BY OGC TO COMMISSION JUN 4 1979

79 JUN 4 P 4: 18
MUR NO. 983
STAFF MEMBER(S) D. Higgins

SOURCE OF MUR: I N T E R N A L L Y G E N E R A T E D

RESPONDENT'S NAME: Republican National Committee

RELEVANT STATUTE: 2 U.S.C. § 441b(a)

INTERNAL REPORTS CHECKED:

FEDERAL AGENCIES CHECKED:

GENERATION OF MATTER

This matter was referred to the Office of General Counsel on the basis of findings made by the Audit Division during an ongoing audit of the Republican National Committee and its affiliates.

SUMMARY OF ALLEGATIONS

That the Republican National Committee violated 2 U.S.C. § 441b(a) by knowingly accepting corporate contributions.

That Capitol Hill Associates, Inc., violated 2 U.S.C. § 441b(a) by making corporate contributions to a political committee.

PRELIMINARY LEGAL ANALYSIS

During the audit of the Republican National Committee, ("the RNC"), the auditors determined that the RNC leased headquarters office space from Capitol Hill Associates, Inc., ("CHA") from July 1970 through May 1978. In May of 1978, the RNC purchased the headquarters building from CHA, a corporation organized in 1950 with a primary objective of constructing and leasing office buildings to the RNC and affiliated organizations.

The auditors noted that during the period from July 1972 to September 1976, the RNC paid CHA an annual rent of \$128,700 for 50,519 square feet of office space in their headquarters building. In September of 1976, the rental charge was increased \$1,500 per month to an annual total of \$146,700. Under the terms of the rental agreement, the \$1,500 monthly increased rental payments were credited towards the RNC's eventual purchase of the building. This credit was reflected in the sales settlement papers in May of 1978. Thus, the RNC effectively paid CHA annual rent totaling \$128,700 for the period July, 1972, to May, 1978.

The \$128,700 annual rent for 50,519 square feet of office space converts to a rental payment of \$2.55 per square foot, with the RNC paying its own operating expenses. The RNC cited a report of an estimate prepared by a realty broker in December 1975 stating that the annual rent was "far below the current average rate for comparable space in the Washington area." The estimate indicated that comparable office space in the Capitol Hill area would rent for \$7.75 - \$8.00 per square foot. (In that the RNC paid its own operating expenses, it is necessary to adjust that figure to reflect an allowance for operating expenses. Using RNC's figures, the cost per square foot would be reduced to \$4.34 - \$4.48 per annum). Applying this rental rate to the 50,519 square feet of office space in the RNC headquarters' building, the comparable annual rental rate of an office in the Capitol Hill area would be between \$219,200 and \$226,300 per annum. Comparing this with the rent actually paid by the RNC shows that the RNC may have benefited from its lease arrangement with CHA by paying from \$90,500 to \$97,600 less than full market value for its headquarters' office space.

<u>LOCATION</u>	<u>ESTIMATED RANGE OF ANNUAL RENT</u>	
	<u>Minimum</u>	<u>Maximum</u>
Capitol Hill	\$219,200	\$226,300
RNC Headquarters	(128,700)	(128,700)
Difference	\$ 90,500	\$ 97,600

In that corporations are prohibited from making contributions in connection with any election to Federal office and political committees are prohibited from knowingly accepting a contribution from any corporation, the benefit received by the RNC and the apparent reduced rental agreement provided by CHA may have resulted in violations of 2 U.S.C. § 441b(a).

RECOMMENDATIONS

1. Find reason to believe that the Republican National Committee violated 2 U.S.C. § 441b(a) by accepting corporate contributions.
2. Find reason to believe that Capitol Hill Associates, Inc., violated 2 U.S.C. § 441b(a) by making corporate contributions to a political committee in connection with Federal elections.
3. Send the attached letters.

5/29/79



Date

William C. Oldaker
General Counsel

Attachments:

Audit Referral
Letters (2)
Attachment I
Attachment II

Gross

A. 472



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

May 3, 1979

MEMORANDUM

TO : BILL OLDAKER

THROUGH : ORLANDO B. POTTER *OBP*
STAFF DIRECTOR

FROM : *AK* BOB COSTA/RICK HALTER/DAN BOYLE *R.B. fo*

SUBJECT : LEASE ARRANGEMENT BETWEEN THE REPUBLICAN NATIONAL COMMITTEE (RNC) AND CAPITOL HILL ASSOCIATES, INC. (CHA)

The Audit staff has recently completed the fieldwork of an audit of the Committee to Preserve the National Republican Center ("the Committee"), an affiliated committee of the RNC. The Committee was formed in June 1977 for the purpose of purchasing the headquarters of the RNC located at 310 First Street, S.E. in Washington, D.C. In May, 1978, the Committee, by means of contributions raised from various sources, loans from the RNC, and the assumption of a mortgage of \$925,091.10, purchased the headquarters building.

During the fieldwork, the Audit staff was able to determine that, prior to the purchase of the headquarters building, the RNC leased the building from CHA, a corporation organized in 1950 by a group made up principally of Republican members of the U.S. Senate and House of Representatives. Since inception, the primary objectives of CHA have been (1) to promote the creation and development of a club for Republicans from all parts of the country, (2) to acquire and lease to such club, once it became established, property and facilities for club use, and (3) to construct near the club, office buildings to house the RNC and affiliated organizations.

In July 1970, upon completion of the RNC headquarters building, the RNC moved to the new building. The construction of the Capitol Hill Club ("the Club") was completed in February 1972, at which time the Club took occupancy. In October 1975, the Club purchased the property and building which it had occupied since February 1972. The RNC did not purchase their headquarters and property until May 1978.



The problem uncovered by the Audit staff during the audit fieldwork involves the amount of rent paid by the RNC to CHA during the period from July 1970 to May 1978. From July 1970 to June 1972, a rental agreement between RNC and CHA was in effect which provided for the RNC to pay a rental amount (\$230,000 per annum) which included all operating expenses of the building. In July 1972, the RNC exercised an option in their lease agreement to pay all operating expenses directly, thereby reducing the annual rent to \$128,700, a reduction of 44%. ^{1/} According to a CHA statement dated March 24, 1978, the RNC continued to pay this amount until September 1976, when the rent was increased \$1,500 per month or to \$146,700 annually. It should be noted that the RNC was to be given full credit (\$1,500/month) toward the eventual purchase of the building for each month that the RNC paid the rent increase. The settlement papers on the purchase indicated a \$31,500 credit toward the purchase price of the building, which represents the increased rental payment from September 1976 to May 1978, a period of twenty-one months. Therefore, due to the fact that the RNC received full credit for each month that it paid the \$1,500/month increase, the increase will not be considered as part of the annual rental payment in calculations performed later in this memo.

According to Section 441b(a) of the Act, corporations are prohibited from making a contribution in connection with any election to Federal office and political committees are prohibited from knowingly accepting a contribution from any corporation.

^{1/} This percentage is based solely on the reduction of rent as agreed to by CHA and the RNC. It has, in no way, been verified to actual cost of operating expenses because the reduction occurred in 1972, for which no records were available for review.

In a memorandum to the RNC chairman dated December 2, 1975 from an unidentified source at CHA which concerns itself with the fair rental value of the RNC headquarters, it is pointed out that rental values for comparable properties in Washington are substantially higher. For the period from January 1976 to May 1978 according to the terms of the lease agreement, the RNC paid \$128,700 per annum ^{2/} for 50,519 square feet of office space in the headquarters building. This converts to a rental payment of \$2.55 per square foot, with the RNC paying the operating expenses. In the Capitol Hill area, the memo indicated that comparable office space would rent for \$7.75-\$8.00 per square foot. ^{3/} This rate, however, includes operating expenses, therefore an adjustment must be made to eliminate operating expenses from this rental estimate. Using the adjustment (a reduction of 44%) made by CHA when RNC exercised the option to assume the operating expenses, the rental value estimate for the Capitol Hill area is \$4.34-4.48/sq. ft. In order to calculate on an annual basis the amount RNC benefits from their apparent less than normal rental charge, it is necessary to apply the square footage contained in the RNC headquarters. According to the aforementioned memorandum to the RNC chairman, the architect's estimate of square footage in the RNC headquarters building is 50,519 sq. ft. Applying this square footage to the above space in the Capitol Hill area the comparable annual rent for this area would be \$219,200 - 226,300. In comparing this annual rental estimate to the annual rent of the RNC headquarters (\$128,700), it is obvious that the RNC benefited from the lease arrangement with CHA as follows:

<u>LOCATION</u>	<u>ESTIMATED RANGE OF ANNUAL RENT</u>	
	<u>Minimum</u>	<u>Maximum</u>
Capitol Hill	\$219,200	\$226,300
RNC Headquarters	<u>(128,700)</u>	<u>(128,700)</u>
Difference	<u>\$ 90,500</u>	<u>\$ 97,600</u>

^{2/} As mentioned before on page 2 of this memo, the \$1,500/month increase (or \$18,000/year) is not considered as rent, therefore is not included in these calculations.

^{3/} These figures represent the estimate of an independent realty brokerage firm in Washington, namely Julien J. Studley, Inc. The memo also indicates a comparison with rental property values in the K Street-Connecticut Avenue corridor. The realty brokerage firm estimates the rental value for this location @ \$8.50-9.50 per square foot, which also includes all operating expenses.

Therefore, it is the conclusion of the Audit staff that the amount of rent apparently paid by the RNC from January 1976 to May 1978 was less than the normal charge for comparable office space. Further, the Audit staff is of the opinion that the money saved by the RNC, due to this lease arrangement with CHA, which is a corporation, could conceivably have been used by the RNC to support federal candidates, in violation of Section 441b(a) of the Act.

The Audit staff recommends that this matter be reviewed by OGC and considered as a possible MUR. If you have any questions regarding this matter, please contact either Russ Bruner or Dan Boyle at extension 3-4155.

Auditor's Note:

The Audit staff is currently engaged in the fieldwork of the audit of the RNC-Expenditure Committee. Verification of rental payments by the RNC to CHA will be performed by a review of the cancelled checks and appropriate documentation from January, 1976 through May, 1978.

The Dwight D. Eisenhower National Republican Center

December 2, 1975

General Dwight D. Eisenhower
 Honorary Chairman
 1951-1959

Theodore H. Danforth
 Chairman of the Board

Fred L. Dixon
 President

Secret

MEMORANDUM FOR: Mrs. Mary Louise Smith
 Chairman
 The Republican National Committee

RE: The Republican National Committee Building

Background:

Capitol Hill Associates, Inc. was organized primarily (1) to promote the creation and development of a Club for Republicans from all parts of the Country, (2) to acquire and lease to the Club property and facilities for its use, and (3) to construct near the Club office buildings to house the Republican National Committee and affiliated organizations. The Company was instrumental in the founding of the Capitol Hill Club and in the acquisition of property for the Club to use. In 1967 Associates offered its stock for sale to the public and the proceeds of that fairly successful offering along with several commercial loans made it possible for Associates to construct the Eisenhower National Republican Center. With the completion of the Club building in 1972, the Company's initial objectives were for the most part accomplished.

Rental payments from the Club and Committee buildings have in recent years been the Company's only source of income. Since 1972 when the Committee began renting its building on a net lease basis, the Club lease has provided the Company's only operating funds. On October 10, 1975 the Club purchased its building from Associates. The Company now has no significant source of continuing income, and as a result, the Board of Directors has concluded that to avoid a wasting of corporate assets, the Company must attempt to sell its remaining property, the Committee building. It is anticipated that Associates would, upon selling the Committee building, liquidate the Company and distribute the proceeds of the sale to its shareholders.

Option:

The RNC lease, as amended, grants the Committee the option to purchase the land and building at a price equal to "the un-depreciated cost of the land and building (including in such cost real estate taxes and other carrying charges on the land prior to completion of construction of the building, together with annual interest on construction costs during the period of construction at a rate per annum that is one percentage point above the prime rate)". The accountants for Associates recently estimated the adjusted cost of the land and building to be \$1,550,990. The option in the lease provides for a payment of at least 20% of the option price in cash with the balance to be secured by a 20 year mortgage with interest at 6%. The property is at the present time subject to a mortgage to the Travelers Insurance Company. The accountants report that as of November 17, 1975 the balance due on the mortgage was approximately \$1,018,000.

House Office Building Commission Agreement:

Associates was, in order to obtain the necessary governmental consent to permit construction of the Club and Committee buildings, required to execute an agreement with the House Office Building Commission. The agreement, as amended, grants to the Government the right of first refusal in the event of a proposed sale of the Committee building to any party other than the Republican National Committee. The purchase price under the agreement is the lesser of (a) the actual cost of the land plus the cost of improving the land, namely zoning, construction and other improvement costs as well as real estate taxes prior to completion of original construction or (b) the fair market value as determined by appraisal. Provisions of the agreement have been recorded among the land records of the District of Columbia, and by the terms of the agreement, the right of first refusal also applies to any proposed sale by a future purchaser. In view of the critical shortage of House Office space as is evident from recent moves to have the House occupy the new Madison Library, there seems to be little doubt that the Government would exercise its right of first refusal if the Committee building were offered for sale.

Present Value of the Property:

Architects' appraisal: Associates recently requested Chatelain, Samperton and Nolan, the original architects of the Committee building to estimate the cost of reproducing the existing facilities in the same general Capitol Hill area. The architects estimate that it would cost approximately \$2,500,000 to build the Committee building today.

(The low bid submitted by the George Hyman Construction Company in 1969 was \$1,190,000) The present value of the land, estimated by the architects to be \$643,500, must then be added to the cost of the building to determine the total cost of approximately \$3,143,500 to reproduce the existing RNC facilities. The architects have in the process of preparing this estimate advised Associates that the building contains 50,519 square feet of space and that the land covers an area of 14,300 square feet.

Appraisal by Joseph L. Donnelly: In 1973 the RNC commissioned Joseph L. Donnelly to provide a professional appraisal of the fair market value of the property occupied by the Committee. By letter dated October 16, 1973, Mr. Donnelly advised the RNC that he estimated the value of the property to be \$1,500,000. This appraisal did not include the adjoining parking lot which was, in a separate letter dated October 16, estimated to have a fair market value of \$195,000.

The appraisers employed by the RNC provided figures on several different methods of appraising the property (excluding the parking lot) as follows:

Cost Approach	\$ 1,645,000
(land sales - average \$37.50 / sq. ft.)	
Income Approach - Property	\$ 1,354,736
Residual Method	
(Rental rates	
\$3.50 / sq. ft. for the upper floors	
\$3.00 / sq. ft. for basement Two - and	
\$25.00 / no. for the 18 parking spaces in basement One	
Market Approach	\$1,500,000
(Building sale - average \$20.00 / sq. ft..)	

The Donnelly figures are based on approximately 28,400 sq. ft. of rental space in the upper floors, 8,000 sq. ft. of rental space in basement Two, and 8,000 sq. ft. of garage and storage space area in basement One.

It should be noted that this appraisal is slightly over two years old and real estate prices have risen dramatically since October 1973. Chatelain, Sanperien and Nolan used \$49.45 per sq. ft. in calculating the current building cost and \$45.00 per sq. ft. in estimating the value of the land.

Washington Rental Market:

Associates has, on an undisclosed basis, recently contacted the realty brokerage firm of Julien J. Studley, Inc. to obtain general information concerning the existing rental market in downtown Washington. Office space in the very desirable K Street - Connecticut corridor is currently renting at from \$8.50 to \$9.50 per sq. ft. Mrs. Barbara L. Pryor, Vice President of Julien J. Studley, Inc. advises that future rental may be expected to be at least 5% higher each year as a result of rapidly increasing operating expenses. The current rental term for space in a new building is at least five years and ten years is common for rental of 30,000 sq. ft. or more.

Adequate alternate office rental space in the Capitol Hill area does not appear to be available. The new building at 400 North Capitol Street will have a total of 560,000 sq. ft. for rent, but according to Mrs. Pryor, the construction specifications contemplate full occupancy by a large government agency. Construction specifications in the Committee building meet the more desirable commercial standards found in the K Street - Connecticut Avenue area. Rental rates for 400 North Capitol Avenue, nevertheless, are expected to be in the \$7.75 to \$8.00 range.

Rent under the current RNC lease is \$128,700 per year. Based on the architects figure of 50,519 sq. ft. of building space, the Committee is paying less than \$2.50 per sq. ft. and this does not include use of the parking lot adjoining the building.

Since Washington office space is generally rented with full services provided, some adjustment should be made to reflect the fact that the RNC has under the terms of the lease agreed to assume the operational expenses of the building. The rent as adjusted will, nevertheless, clearly be far below the current average rate for comparable space in the Washington area.

Conclusion:

Under the existing lease the Committee building does not provide the funds necessary for Associates to continue to meet its corporate obligations. With the sale of the Club building, a sale of the Committee property and liquidation of Associates appears desirable. By purchasing the property the RNC can insure the permanent use of its excellent facilities. A sale of the Committee building to the RNC at a mutually agreeable price would be highly beneficial to both parties.

The supporting materials from accountants, architects and other sources are available for Committee use if desired.

CAPITOL HILL ASSOCIATES, INC.

310 First Street, S. E.

Washington, D. C. 20003

March 24, 1978

To the Holders of Class A Common Stock (Voting Stock)
and Class B Common Stock (Non-Voting Stock)

Capitol Hill Associates, Inc. has entered into a Purchase Agreement to sell, subject to approval of the Class A voting stockholders, its remaining property to the Republican National Committee. The Purchase Agreement is part of a Plan of Complete Liquidation and Dissolution under which the Company, subject to the approval of the Class A stockholders, would sell its property to the Committee, make distributions in liquidation to the holders of Class A Common Stock and Class B Common stock, *pro rata*, without distinction as to class, and then dissolve.

The proposed Plan of Liquidation has been considered and approved by your Board of Directors who believe it to be in the best interest of all stockholders. You are therefore urged to study the enclosed materials carefully so as to make your own determination as to the advisability of the dissolution of the Company.

As noted in the enclosed proxy statement, management estimates that, if the Company is dissolved, each Class A and Class B stockholder should receive an aggregate of approximately \$55.00 per share as a cash liquidating distribution. Such estimate assumes a favorable tax ruling from the Internal Revenue Service and is further based on other assumptions and conditions set forth in the proxy statement.

Enclosed with this letter is a notice of a special meeting of the Class A stockholders, proxy statement with appropriate exhibits and proxy card. The principal matters to be considered at the meeting are the sale of the Company's property, the liquidation and dissolution of the Company, and related matters. Affirmative votes representing at least a majority of the Class A Stock are required for approval of the sale and adoption of the Plan of Liquidation. I would appreciate your signing the proxy card and returning it as soon as possible. Even though you may own only a few shares, your vote is important.

Copies of the material sent to the Class A stockholders are being sent to the Class B stockholders.

Very truly yours,

FRED L. DIXON
President

BUSINESS OF THE COMPANY

Associates was organized under the laws of Delaware in 1950 with the primary objectives of promoting the creation and development of a club in the District of Columbia for Republicans from all parts of the country and of constructing and leasing office buildings near the club to the Republican National Committee and affiliated organizations. Two of the three buildings originally contemplated were constructed and are the site of the Dwight D. Eisenhower National Republican Center which was dedicated in January 1972. In October 1975, Associates sold to the Capitol Hill Club ("Club") the lot and building occupied by the Club. The sole remaining asset of the Company is the building and lot now rented by the Republican National Committee under a net lease arrangement.

For further information concerning the sale of the property to the Club and the Company's business and present property, see *Item 1. Business* in the 1977 Annual Report annexed hereto.

FINANCIAL STATEMENTS

Audited financial statements of the Company, consisting of Balance Sheets at January 31, 1977 and 1978, Statements of Income and Retained Earnings for the years ended January 31, 1976, 1977 and 1978 and related Statements of Changes in Financial Position, Notes to the Financial Statements, and supplementary Schedules are contained in the 1977 Annual Report. An unaudited Summary of Earnings (Loss) for the last five fiscal years is also contained in the 1977 Annual Report.

PROPOSED LIQUIDATION AND DISSOLUTION

Reasons for Proposed Liquidation

As noted above, Associates was organized primarily to promote the creation and development of a club in the District of Columbia for Republicans, to construct and lease to such club a facility for its use and to construct and lease office buildings near the club to the Republican National Committee ("RNC") and affiliated organizations. The Company has therefore never been operated as a commercial enterprise in the usual sense.

In the hope of raising construction funds, Associates in 1967 offered its Class B Common Stock (Non-Voting Stock) for sale to the public. The initial efforts were fairly successful and the RNC and Capitol Hill Club buildings were financed in part by the public offering but primarily by several loans from the Travelers Insurance Company. Management hoped that continued sales of the Class B stock would furnish proceeds to reduce the outstanding mortgages on the property. Such sales lagged however, and in 1974 the Board reluctantly concluded that the public offering should be terminated.

Rental payments from the leases with the Club and the RNC were for a number of years the Company's only source of income—income which was offset by the interest expenses and amortization of the Company's debt. Primarily because of these expenses and depreciation charges, Associates has had operating losses in all but two of the last ten years. For the fiscal year ending January 31, 1976, the Company had earnings due to an extraordinary gain as a result of the sale to the Club of the building and lot rented by the Club. For the most recent fiscal year, Associates showed a small profit primarily due to an increase in the rental payments made by the RNC.

Since the sale of the Club property in October 1975, the sole asset of the Company has been the land and building now rented by the RNC. Such property is rented, however, on a net lease basis and consequently provides little operating income to the Company. Further, the Company's indebtedness to Travelers (secured by the land and building rented to the RNC) matures in July, 1980 at which time a balloon payment of approximately \$831,500 is due. Unless the indebtedness could be refinanced, Associates would be in default on the debt at that time. For these reasons and the fact that the construction of the RNC and Club buildings have for the most part accomplished the principal initial objectives of the Company, the Board of Directors concluded some time ago that a sale of its remaining property to the RNC and subsequent liquidation and dissolution of the Company would be desirable.

Summary of Proposed Liquidation

The Board of Directors of the Company at a meeting on January 30, 1978, approved proposals to liquidate and dissolve the Company. At such meeting the Board approved a Plan of Complete Liquidation and Dissolution ("Liquidation Plan") and of a Purchase Agreement providing for the sale of the Company's remaining property to the RNC under certain conditions. The Board also directed that the Liquidation Plan and Purchase Agreement be submitted for adoption and approval to the Class A stockholders of the Company at a meeting to be called for that purpose. The following is a summary of the terms of and transactions contemplated by the Liquidation Plan, the Purchase Agreement and related documents. A copy of the Liquidation Plan is annexed hereto as Exhibit II; a copy of the Purchase Agreement is filed herewith as attachment A to the Liquidation Plan. The summary is qualified by reference to such documents.

Terms of Sale. The proposed liquidation of the Company is based upon the sale of the Company's remaining assets to the RNC pursuant to a Purchase Agreement dated February 24, 1978 between the Company and the RNC, as amended ("Purchase Agreement"). Assuming a sale in April, 1978, the purchase price for such assets will be approximately \$1,521,000, determined as follows.

On February 14, 1968, Associates and the RNC entered into a lease agreement regarding rental by the RNC for a term of 20 years of a building to be constructed and completed by Associates within 30 months of the date of the lease. (The RNC took occupancy in July, 1970). Pursuant to the terms of the agreement, the RNC was granted the option at any time during the term of the lease to purchase the building and underlying land to be leased by the RNC, the purchase price to be the undepreciated cost, as defined, of such property. Such cost is approximately \$1,434,000. In September, 1976, the lease agreement was revised to increase the monthly rental by \$1,500, and to provide that the purchase price to the RNC for the property would be reduced by the sum of \$1,500 times the number of months that elapse between September 1, 1976 and the exercise by the RNC of its option. The purchase price of an adjoining parking lot being leased by the RNC is also the undepreciated cost of such land—approximately \$117,000. Thus the aggregate undepreciated cost of the building and land now being rented by the RNC is approximately \$1,551,000 reduced by the sum of approximately \$30,000, resulting in a purchase price to the RNC of approximately \$1,521,000.

The property is subject to a first mortgage in the amount of approximately \$932,000 as of March 1, 1978, which mortgage the lender, Travelers Insurance Company, has agreed may be assumed by the RNC in whole or in part. Travelers has also agreed that at such time as title to the property passes to the RNC and RNC either pays in full the mortgage or assumes the mortgage and continues the first lien on the property then Associates is relieved of all obligations to Travelers.

Under the terms of the Purchase Agreement, the sale to the RNC is subject to the conditions, among others, (1) that the voting stockholders of Associates shall have approved the Liquidation Plan and Purchase Agreement at a meeting called for those purposes, (2) that the Company shall have obtained a ruling from the Internal Revenue Service satisfactory to counsel that the Company, under Section 337 of the Internal Revenue Code, will not recognize a gain in connection with the sale of the property, that stockholders, under Section 331 of the Code, will realize capital gain or loss upon receipt of liquidating distributions, and (c) that the RNC shall have obtained by the date of purchase the sum of at least \$600,000 to be applied toward the purchase price of the property. Management of Associates has no reason to believe that these or other conditions of the Purchase Agreement will not be satisfied. However, if for any reason the sale is not consummated, the Board of Directors has the right to abandon the Liquidation Plan.

Dissolution Procedures. In the event the Liquidation Plan and Purchase Agreement are approved at the meeting of the Class A stockholders, and assuming receipt of a favorable tax ruling, it is anticipated that the Company would sell its remaining assets to the RNC within two weeks of the meeting and shortly thereafter file a certificate of dissolution with the State of Delaware. Upon such certificate becoming effective, the Company is dissolved and thereafter continues for a period of three years a body corporate for the purposes of maintaining a liquidating status and closing down the business of the Company, including the defense or prosecution of claims or suits, discharge of debts and liquidation expenses and the payment of liquidation distributions to stockholders. Thus, management, once the dissolution certificate is effective, will take only such action as is necessary or appro-



FEDERAL ELECTION COMMISSION

1325 K STREET NW
WASHINGTON, D.C. 20463

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Robert Carter
Treasurer
Republican National Committee
310 First Street, S.E.
Washington, D.C. 20003

Re: MUR 983

Dear Mr. Carter:

This letter is to notify you that on the basis of information ascertained in the normal course of carrying out its supervisory responsibilities, the Federal Election Commission has determined that it has reason to believe that your Committee has violated the Federal Election Campaign Act, as amended (the "Act"), by leasing office space from Capitol Hill Associates, Inc. (CHA, Inc.) at a rental rate substantially less than full market value from May 1976 to May 1978 resulting in a possibly illegal receipt of a corporate contribution from CHA, Inc.

Under 2 U.S.C. § 441b(a), political committees are prohibited from knowingly accepting contributions from corporations.

Upon making a determination that there is reason to believe that a violation has occurred, the Commission is required to make an investigation and to afford your Committee a reasonable opportunity to demonstrate that no action should be taken. As part of this process, please submit, within 10 days of receipt of this letter, any factual or legal materials which you deem relevant to the Commission's investigation of this matter.



This letter will remain confidential in accordance with 2 U.S.C. § 437g(a)(3) unless you state to the Commission in writing that you wish the investigation to be made public. The staff member assigned to this matter is Dan Higgins, who can be reached at (202) 523-4166.

Sincerely,

William C. Oldaker
General Counsel



FEDERAL ELECTION COMMISSION

1325 K STREET N.W.
WASHINGTON, D.C. 20463

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Fred L. Dixon
President
Capitol Hill Associates, Inc.
310 First Street, S.E.
Washington, D.C. 20003

Re: MUR 983

Dear Mr. Dixon:

This letter is to inform you that on the basis of information ascertained in the normal course of carrying out its supervisory responsibilities, the Federal Election Commission has determined that it has reason to believe that Capitol Hill Associates, Inc., has violated the Federal Election Campaign Act, as amended (the "Act"), by leasing office space to the Republican National Committee ("RNC") for substantially less than full market value from May 1976 to May 1978, resulting in a possible illegal corporate contribution to the RNC. Under 2 U.S.C. § 441b(a), corporations are prohibited from making contributions in connection with any election to federal office.

Upon making a determination that there is reason to believe that a violation has occurred, the Commission is required to make an investigation and to afford you a reasonable opportunity to demonstrate that no action should be taken. As part of this process, please submit within 10 days of receipt of this letter any factual or legal materials which you deem relevant to the Commission's investigation of this matter.



This letter will remain confidential in accordance with 2 U.S.C. § 437g(a)(3) unless you state to the Commission in writing that you wish the investigation to be made public. The staff member assigned to this matter is Dan Higgins, who can be reached at (202) 523-4166.

Sincerely,

William C. Oldaker
General Counsel

cc: Robert Carter, Treasurer
Republican National Committee



FEDERAL ELECTION COMMISSION

1125 K STREET NW
WASHINGTON DC 20463

May 3, 1979

MEMORANDUM

TO : BILL OLDAKER

THROUGH : ORLANDO B. POTTER *O.B.P.*
STAFF DIRECTOR

FROM : *RK* BOB COSTA/RICK HALTER/DAN BOYLE *RH* *R.B. fo*

SUBJECT : LEASE ARRANGEMENT BETWEEN THE REPUBLICAN NATIONAL COMMITTEE (RNC) AND CAPITOL HILL ASSOCIATES, INC. (CHA)

The Audit staff has recently completed the fieldwork of an audit of the Committee to Preserve the National Republican Center ("the Committee"), an affiliated committee of the RNC. The Committee was formed in June 1977 for the purpose of purchasing the headquarters of the RNC located at 310 First Street, S.E. in Washington, D.C. In May, 1978, the Committee, by means of contributions raised from various sources, loans from the RNC, and the assumption of a mortgage of \$925,091.10, purchased the headquarters building.

During the fieldwork, the Audit staff was able to determine that, prior to the purchase of the headquarters building, the RNC leased the building from CHA, a corporation organized in 1950 by a group made up principally of Republican members of the U.S. Senate and House of Representatives. Since inception, the primary objectives of CHA have been (1) to promote the creation and development of a club for Republicans from all parts of the country, (2) to acquire and lease to such club, once it became established, property and facilities for club use, and (3) to construct near the club, office buildings to house the RNC and affiliated organizations.

In July 1970, upon completion of the RNC headquarters building, the RNC moved to the new building. The construction of the Capitol Hill Club ("the Club") was completed in February 1972, at which time the Club took occupancy. In October 1975, the Club purchased the property and building which it had occupied since February 1972. The RNC did not purchase their headquarters and property until May 1978.



The problem uncovered by the Audit staff during the audit fieldwork involves the amount of rent paid by the RNC to CHA during the period from July 1970 to May 1978. From July 1970 to June 1972, a rental agreement between RNC and CHA was in effect which provided for the RNC to pay a rental amount (\$230,000 per annum) which included all operating expenses of the building. In July 1972, the RNC exercised an option in their lease agreement to pay all operating expenses directly, thereby reducing the annual rent to \$128,700, a reduction of 44%. ^{1/} According to a CHA statement dated March 24, 1978, the RNC continued to pay this amount until September 1976, when the rent was increased \$1,500 per month or to \$146,700 annually. It should be noted that the RNC was to be given full credit (\$1,500/month) toward the eventual purchase of the building for each month that the RNC paid the rent increase. The settlement papers on the purchase indicated a \$31,500 credit toward the purchase price of the building, which represents the increased rental payment from September 1976 to May 1978, a period of twenty-one months. Therefore, due to the fact that the RNC received full credit for each month that it paid the \$1,500/month increase, the increase will not be considered as part of the annual rental payment in calculations performed later in this memo.

According to Section 441b(a) of the Act, corporations are prohibited from making a contribution in connection with any election to Federal office and political committees are prohibited from knowingly accepting a contribution from any corporation.

^{1/} This percentage is based solely on the reduction of rent as agreed to by CHA and the RNC. It has, in no way, been verified to actual cost of operating expenses because the reduction occurred in 1972, for which no records were available for review.

In a memorandum to the RNC chairman dated December 2, 1975 from an unidentified source at CHA which concerns itself with the fair rental value of the RNC headquarters, it is pointed out that rental values for comparable properties in Washington are substantially higher. For the period from January 1976 to May 1978 according to the terms of the lease agreement, the RNC paid \$128,700 per annum ^{2/} for 50,519 square feet of office space in the headquarters building. This converts to a rental payment of \$2.55 per square foot, with the RNC paying the operating expenses. In the Capitol Hill area, the memo indicated that comparable office space would rent for \$7.75-\$8.00 per square foot. ^{3/} This rate, however, includes operating expenses, therefore an adjustment must be made to eliminate operating expenses from this rental estimate. Using the adjustment (a reduction of 44%) made by CHA when RNC exercised the option to assume the operating expenses, the rental value estimate for the Capitol Hill area is \$4.34-4.48/sq. ft. In order to calculate on an annual basis the amount RNC benefits from their apparent less than normal rental charge, it is necessary to apply the square footage contained in the RNC headquarters. According to the aforementioned memorandum to the RNC chairman, the architect's estimate of square footage in the RNC headquarters building is 50,519 sq. ft. Applying this square footage to the above space in the Capitol Hill area the comparable annual rent for this area would be \$219,200 - 226,300. In comparing this annual rental estimate to the annual rent of the RNC headquarters (\$128,700), it is obvious that the RNC benefited from the lease arrangement with CHA as follows:

<u>LOCATION</u>	<u>ESTIMATED RANGE OF ANNUAL RENT</u>	
	<u>Minimum</u>	<u>Maximum</u>
Capitol Hill	\$219,200	\$226,300
RNC Headquarters	<u>(128,700)</u>	<u>(128,700)</u>
Difference	<u>\$ 90,500</u>	<u>\$ 97,600</u>

^{2/} As mentioned before on page 2 of this memo, the \$1,500/month increase (or \$18,000/year) is not considered as rent, therefore is not included in these calculations.

^{3/} These figures represent the estimate of an independent realty brokerage firm in Washington, namely Julien J. Studley, Inc. The memo also indicates a comparison with rental property values in the K Street-Connecticut Avenue corridor. The realty brokerage firm estimates the rental value for this location @ \$8.50-9.50 per square foot, which also includes all operating expenses.

Therefore, it is the conclusion of the Audit staff that the amount of rent apparently paid by the RNC from January 1976 to May 1978 was less than the normal charge for comparable office space. Further, the Audit staff is of the opinion that the money saved by the RNC, due to this lease arrangement with CHA, which is a corporation, could conceivably have been used by the RNC to support federal candidates, in violation of Section 441b(a) of the Act.

The Audit staff recommends that this matter be reviewed by OGC and considered as a possible MUR. If you have any questions regarding this matter, please contact either Russ Bruner or Dan Boyle at extension 3-4155.

Auditor's Note:

The Audit staff is currently engaged in the fieldwork of the audit of the RNC-Expenditure Committee. Verification of rental payments by the RNC to CHA will be performed by a review of the cancelled checks and appropriate documentation from January, 1976 through May, 1978.



FEDERAL ELECTION COMMISSION

1325 K STREET NW
WASHINGTON, D.C. 20463

THIS IS THE BEGINNING OF MUR # 983

Date Filmed 7/31/79 Camera No. --- 2

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