

1 **FEDERAL ELECTION COMMISSION**

SENSITIVE

2 **STATEMENT OF REASONS**

3
4 **RESPONDENTS:** Martha Coakley; MUR: 6216
5 Coakley for Senate and
6 Nathaniel C. Stinnett, in his
7 official capacity as treasurer;
8 Coakley (State) Committee
9

10 **I. INTRODUCTION**

11 This matter was generated by a complaint filed with the Federal Election Commission by
12 the Massachusetts Republican Party, alleging that Martha Coakley, Coakley for Senate and
13 Nathaniel C. Stinnett, in his official capacity as treasurer ("Federal Committee"); and the
14 Coakley (State) Committee ("State Committee") (collectively the "Respondents") violated the
15 Federal Election Campaign Act, as amended. *See* 2 U.S.C. § 437g(a)(1). Specifically, the
16 complaint alleges that the State Committee hired consultants whose work may have benefited the
17 Federal Committee, and that the State Committee purchased assets which it later sold to the
18 Federal Committee. After considering the complaint and responses in this matter, the
19 Commission voted to find no reason to believe that Respondents violated the Act or Commission
20 regulations with respect to the asset sale agreement, and further voted to exercise its
21 prosecutorial discretion and dismiss the allegations related to the hiring of consultants. *See*
22 *Heckler v. Chaney*, 470 U.S. 821 (1985).

23 **II. FACTUAL AND LEGAL ANALYSIS**

24 **A. Factual Background**

25 Martha Coakley is the Massachusetts Attorney General and was the Democratic nominee
26 for the U.S. Senate in the January 19, 2010, special election. She formally declared her Senate
27 candidacy on September 3, 2009, filing her Statement of Candidacy and her federal

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1 committee's Statement of Organization the same day. The complaint alleges that, before this
2 date, Coakley used State Committee funds to pay for federal exploratory activity in order to
3 produce a "quick launch" of her Senate campaign.¹ According to the complaint and attached
4 news articles, the State Committee used state campaign funds to benefit the Federal Committee
5 in two ways:

- 6 • The State Committee paid to hire Kevin Conroy, the eventual campaign manager for her
7 federal campaign, and Alex Zaroulis, her spokeswoman, in August 2009, and paid for
8 work by two consulting firms, 4C Partners LLC and Liberty Square Group, that benefited
9 the federal campaign; and
- 10 • The State Committee paid to buy a fundraising database, redesign Coakley's website, and
11 secure 37 variations of "marthacoakley.com," and bought \$6,000 worth of yard signs,
12 posters, buttons, lanyards, and t-shirts featuring her generic campaign logo that were used
13 when Coakley announced her candidacy. The State Committee then sold these assets to
14 the federal committee for \$35,725 pursuant to an asset sale agreement on the same day
15 Coakley announced her candidacy.

16 In their response, the State and Federal Committees have each denied that the State Committee
17 improperly paid for federal exploratory activity, asserting that Coakley hired political consultants
18 for her state reelection campaign in 2010, and that both committees were in compliance with
19 state and federal laws.²

20 1. Consultants

21 The State Committee hired campaign staff and several consultants the month before
22 Coakley announced her Senate candidacy on September 3, 2009, "even though [Coakley] faces
23 no challengers for the 2010 attorney general race."³ In particular, according to the complaint, the
24 State Committee hired Alex Zaroulis on August 1, 2009, and Kevin Conroy on August 17,

¹ See Complaint at 2.

² See Response of Coakley for Senate, at 3. Martha Coakley did not file a response in this matter.

³ Complaint Attach. 1 (Hillary Chabot, *Martha Coakley Used Campaign Cash on Fed Race Query*, BOSTON HERALD, Sept. 2, 2009); see also Complaint at 4.

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1 2009, who migrated to the Senate campaign after Coakley announced her candidacy.⁴ Although
2 the complaint alleges that the early hiring of these “key individuals” improperly benefited
3 Coakley’s federal campaign, Coakley representatives asserted publicly that these consultants
4 initially were hired for the state campaign.⁵ Zaroulis, who ran Coakley’s communications for the
5 Senate race, states that she “was paid \$2,000 from Coakley’s state account because she was
6 originally hired for the attorney general’s race.”⁶ Zaroulis also explained the hiring of Conroy,
7 the Federal Committee’s eventual campaign manager, by stating, “It is not unusual for a state
8 campaign to hire campaign staff months, even a year, in advance to prepare for an election.
9 Kevin Conroy was hired for that purpose.”⁷

10 According to the complaint, the State Committee also paid:

- 11 • \$9,000 in June and July 2009 for consulting services by a Washington political consulting
12 firm, 4C Partners, LLC;
- 13 • \$716 in August 2009 to reimburse travel expenses of 4C worker Julia Hoffman, who
14 went on the state campaign payroll in December 2008; and
- 15 • \$12,000 combined to Liberty Square Group, in June and August of 2009.⁸

16 Both 4C Partners, LLC and Liberty Square Group were retained by the Federal Committee after
17 Coakley announced her candidacy on September 3, 2009.⁹

4 Complaint at 2 and Attach. 2 (Glen Johnson, *Mass. AG Maneuvered for Year for Kennedy Race*, ASSOCIATED PRESS, Sept. 10, 2009).

5 See Dave Wedge, *\$30G in Funds Paid to AG's Consultants Eyed*, BOSTON HERALD, Oct. 17, 2009, at A4.

6 See Chabot, *supra*; see also Johnson, *supra* (quoting Zaroulis as saying “I was hired for the AG’s race.”).

7 Johnson, *supra*.

8 See *id.* In addition to these amounts alleged in the complaint, the State Committee paid Liberty Square Group \$6,000 in July 2009. See Reports of Martha Coakley, Massachusetts Office of Campaign and Political Finance (“OCPF”), available at <http://www.efs.cpf.state.ma.us/SearchReportResults.aspx?cpfid=13182> (last visited March 12, 2010).

9 See Complaint at 3.

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1 2. Transfer of Assets

2 According to the complaint, the State Committee used campaign funds to buy a
3 fundraising database, redesign her website, secure domain names, and purchase \$6,000 worth of
4 yard signs, posters, buttons, lanyards and T-shirts featuring her campaign logo, then sold these
5 assets to the Federal Committee for \$35,725 on the same day that Coakley announced her
6 candidacy.¹⁰ Coakley's Federal and State Committees reported this transaction.¹¹ Coakley also
7 publicly disclosed the existence of an asset sale agreement between her state and federal
8 campaign committees at the time she declared her candidacy.¹²

9 B. Analysis

10 1. Asset Sale Agreement

11 Federal candidates and officeholders, or entities directly or indirectly established,
12 financed, maintained or controlled by them, are restricted from soliciting, receiving, directing,
13 transferring, or spending nonfederal funds. *See* 2 U.S.C. § 441i(e)(1)(A). In addition, section
14 110.3(d) of the Commission's regulations provides, in material part, that transfers of funds or
15 assets from a candidate's campaign committee for a nonfederal election to his or her principal
16 campaign committee for a federal election are prohibited. *See* 11 C.F.R. § 110.3(d). The State of
17 Massachusetts permits labor organizations to make contributions to candidates, and the State

¹⁰ *See id.* at 2.

¹¹ On the same day that Coakley announced her candidacy, the Federal Committee made a \$35,725 disbursement to the State Committee for the "Purchase of Assets from State Committee to Federal Committee." *See* Coakley for Senate, October 2009 Quarterly Report, (amended) at 2893. One week later, the State Committee reported receiving \$35,725 from "Martha Coakley, for Senate Committee" for "Federal Committee purchasing State Committee Assets." *See* Reports of Martha Coakley, OCPF, *supra*. This entry in the State Committee's Massachusetts' campaign finance report included a notation: "\$ to be Purged to Charity MA 02129." On November 25, 2009, the State Committee reported making an expenditure for the purpose of a "Donation" to Genise Hopperage School for Girls, in the same amount it received for the sale of the assets to the Federal Committee, \$35,725.

¹² *See* Johnson, *supra*. The Coakley response did not include a copy of the agreement.

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1 Committee's disclosure reports show that it accepted union contributions during 2009.
2 See Mass. Gen. Law. 55:8 (prohibiting corporations, but not labor organizations, from making
3 contributions); see generally Reports of Martha Coakley, OCPF, *supra*. Therefore, the Federal
4 Committee's receipt of assets purchased with these nonfederal funds could have potentially been
5 a violation of 2 U.S.C. § 441i(e)(1)(A).

6 However, the Commission has permitted the transfer of a nonfederal committee's assets
7 to the campaign committee of a candidate for federal office where the assets are sold at fair
8 market value. See Explanation and Justification: Transfer of Funds from State to Federal
9 Campaigns, 58 Fed. Reg. 3474, 3475 (Jan. 8, 1993) ("the rule should not be read to proscribe the
10 sale of assets by the state campaign committee to the federal campaign committee, so long as
11 those assets are sold at fair market value"); see also Statement of Reasons of Chairman Walther,
12 Vice-Chairman Petersen, and Commissioners Bauerly, Hunter, and Weintraub, MUR 5964
13 (Schock for Congress) (permitting the transfer of a nonfederal committee's assets to the
14 campaign committee of a candidate for federal office when such transfer was conducted under
15 current market practices and at the usual and normal charges); Advisory Opinion 1992-19 (Mike
16 Kreider for Congress Committee). The Commission's regulations define "usual and normal
17 charge" as "the price of those goods in the market from which they ordinarily would have been
18 purchased at the time of the contribution." 11 C.F.R. § 100.52(d)(2).

19 The response in this matter stated that the Federal Committee purchased the assets from
20 the State Committee in order to be in full compliance with the Act. Although the response did
21 not specifically detail the amount paid by the Federal Committee for these assets, the
22 Committee's 2009 October Quarterly Report shows a \$35,725 disbursement to the State
23 Committee for the "Purchase of Assets from State Committee to Federal Committee" that was

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1 made on the day Coakley announced her Federal candidacy. The Commission does not have any
2 information to suggest that the fair market value of the assets exceeded \$35,725. Furthermore,
3 the Committee acknowledged that the asset transfer would have constituted an unlawful
4 contribution pursuant to 11 C.F.R. § 110.3(d) “[i]f these goods were transferred to the [Federal
5 Committee] without the committee paying the usual and normal charge.” Response of Federal
6 and State Committees at 3. The Federal and State Committees then explicitly asserted that the
7 asset transfer did not violate the law. *Id.* Because there is no information to suggest that the
8 amount paid by the Federal Committee for the assets was not fair market value, the Commission
9 determined that there is no reason to believe that Martha Coakley, Coakley for Senate and
10 Nathaniel C. Stinnett, in his official capacity as treasurer, and the Coakley (State) Committee
11 violated the Act or Commission regulations with respect to the asset sale agreement.

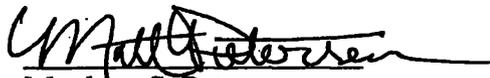
12 **2. Payments for Consultants**

13 With regard to the potential use of state consultants to perform work for the federal
14 campaign, Coakley’s Federal and State Committees have publicly denied that State Committee
15 funds were used to pay for Federal Committee consulting fees. *See supra* Section II.A.1.
16 Zaroulis, who ran Coakley’s communications for the Senate race, states that she initially
17 received payments from the State Committee for services related to Coakley’s state campaign.
18 *Id.* She also explains that the State Committee hired Kevin Conroy, the Federal Committee’s
19 eventual campaign manager, to prepare for Coakley’s Attorney General re-election campaign for
20 the November 2010 state election. The State Committee reports reveal that Zaroulis and Conroy
21 were on its payroll on August 1, 2009 and August 17, 2009, respectively. Although the State
22 Committee’s August payments to the consultants occurred in close proximity to Coakley’s
23 September 3, 2009 announcement of her Federal candidacy, and the Respondents did not address

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1 the allegation that the State Committee paid for consulting services that benefited the Federal
2 Committee, the use of the Commission's limited resources to pursue this matter is not warranted
3 here, as it would appear that any amount of State Committee consultant payments attributable to
4 the Federal Committee would be minimal. Accordingly, the Commission has voted to dismiss,
5 as a matter of prosecutorial discretion, the allegations relating to the hiring of consultants. See
6 *Heckler v. Chaney*, 470 U.S. 821 (1985).

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8
9 9/8/10
10 Date


11 Matthew S. Petersen
12 Chairman

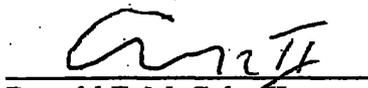
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14 9/8/10
15 Date


16 Cynthia L. Bauerly
17 Vice-Chair

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19 9/8/10
20 Date

 /EW
21 Caroline C. Hunter
22 Commissioner

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24
25 9/8/10
26 Date


27 Donald F. McGahn II
28 Commissioner

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31 9/8/10
32 Date


33 Ellen L. Weintraub
34 Commissioner

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