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May 17, 2021

The Honorable Shana M. Broussard, Chair
Federal Election Commission
Washington, DC 20463

Re: MUR 7680**Representative Steven Palazzo, Palazzo for Congress and Paul V. Breazeale
in his official capacity as Treasurer for Palazzo for Congress**

Dear Chair Broussard:

Please accept the attached as our response to the Factual and Legal Analysis of the Federal Election Commission in MUR 7680 regarding Representative Steven Palazzo. We respectfully request that the Federal Election Commission (the "Commission"), after a thorough evaluation, dismiss this matter and take no further action.

Representative Palazzo, Palazzo for Congress and Paul Breazeale as Treasurer have worked to improve their internal controls and operations and, with the attached Response to the MUR and documentation, hope to clarify the issues raised to demonstrate that no violations of the FECA have occurred. Representative Palazzo will fully cooperate with the Commission in this matter. It is the desire of Rep. Palazzo and his campaign to follow all rules set forth by the Commission.

Of course, it is no defense, but it should be noted that the original complaint was filed by a former primary election political opponent who has already announced he will run against Representative Palazzo again in 2022.

Representative Palazzo, Palazzo for Congress and Paul Breazeale in his official capacity as treasurer did not convert campaign funds to personal use in violation of 52 U.S.C. § 30114(b), as our attached response and documentation to the Factual and Legal Analysis will demonstrate. Our response contains information that is relevant to the Commission's review of the allegations set forth in the original complaint as well as the findings in the Factual and Legal Analysis of the Commission.

Chair Broussard

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Upon your review of our response, please let me know if you have any questions or need any additional information. The Congressman, Mr. Breazeale and others are prepared to be interviewed by you upon request in order to assist you in this matter. We obviously would request a resolution before the 2022 primary if at all possible.

Yours truly,

A handwritten signature in blue ink that reads "Gregg Harper". The signature is written in a cursive style with a large, stylized "G" and "H".

Gregg Harper

**RESPONSE OF CONGRESSMAN STEVEN PALAZZO, PALLAZZO FOR
CONGRESS AND PAUL V. BREAZEALE, IN HIS OFFICIAL CAPACITY
AS TREASURER TO FEDERAL ELECTION COMMISSION
FACTUAL AND LEGAL ANALYSIS**

RESPONDENTS: Congressman Steven Palazzo
Palazzo for Congress and Paul V. Breazeale
in his official capacity as treasurer

MUR 7680

I. INTRODUCTION

As previously stated, this complaint was filed with Federal Election Commission by Carl Boyanton, a 2020 primary political opponent of Congressman Palazzo, with Mr. Boyanton claiming incorrectly that the Campaign paid to rent a “farm” in Perkinston, Mississippi owned by Congressman Palazzo. In fact, it was for a house in D’Iberville, Mississippi that was used as a campaign office and not as a residence.

The complaint alleges that campaign funds were for personal use in violation of the Federal Election Campaign Act of 1971, as amended (“Act”). The Commission focuses on several areas that could be viewed as personal, “including rent payments for a candidate-owned property, an unnecessarily expensive car lease and car repair payments, accounting fees paid to a family member’s accounting firm, a hotel bill, and payments for a golf cart and an enclosed trailer.”

The Commission accepts that the Hyatt hotel bill payment was a data entry error on the Committee’s disclosure reports so no further explanation of that item will be given and the Respondents will focus on the other areas and attempt to rebut any presumption of personal use violations. After review of the accompanying information and documentation, we hope to demonstrate that the matters listed were payments in accordance with the Federal election Campaign Act of 1971, as amended (“Act”), and not for personal use in violation of 52 U.S.C. § 30114(b).

II. RESPONSE TO FACTUAL AND LEGAL ANALYSIS

The applicable text for this discussion is found in

§ 30114. Use of contributed amounts for certain purposes

(a) *Permitted uses.* A contribution accepted by a candidate, and any other donation received by an individual as support for activities of the individual as a holder of Federal office, may be used by the candidate or individual—

(1) for otherwise authorized expenditures in connection with the campaign for Federal office of the candidate or individual;

(2) for ordinary and necessary expenses incurred in connection with duties of the individual as a holder of Federal office;

(b) *Prohibited use.*

(1) *In general.* A contribution or donation described in subsection (a) shall not be converted by any person to personal use.

(2) *Conversion.* For the purposes of paragraph (1), a contribution or donation shall be considered to be converted to personal use if the contribution or amount is used to fulfill any commitment, obligation, or expense of a person that would exist irrespective of the candidate's election campaign or individual's duties as a holder of Federal office, including—

(A) a home mortgage, rent, or utility payment;

(C) a noncampaign-related automobile expense;

While considering the “irrespective test” as set forth in the Act, this MUR properly states that “if the candidate can reasonably show that the expenses at issue resulted from campaign or officeholder activities, the Commission will not consider the use to be personal use.” *See* Personal Use E&J at 7863-64.

A. Campaign Office Payments

The property at 11072 Old Highway 67, D'Iberville, MS was allowable to use as a campaign office for Palazzo for Congress, and lease payments made by the Committee to Greene Acres, LLC, were at or below Fair Market Value.

To support routine campaign activity and establish a visible campaign presence, Palazzo for Congress leased a campaign office to prepare for the 2018 election cycle and maintain preparedness for future elections. By November 2017, it was widely covered in media reports that Steven Palazzo would likely be opposed by up to three well known elected officials from the Mississippi Gulf Coast in the June 2018 Republican Primary and November 2018 General Election. Additionally, a lesser known Republican primary opponent had been aggressively campaigning against Steven Palazzo since mid-November 2016. The 2018 election cycle appeared that it would be one of the most competitive election cycles for incumbent Congressman Steven Palazzo.

Also, media reports indicated there would be a competitive Republican Primary for the U.S. Senate in a race between Senator Roger Wicker and Chris McDaniel. Palazzo for Congress had experienced in 2014 the risks of being challenged during a midterm Republican Primary while concurrently an incumbent senator is in a competitive primary election. In 2014, Steven Palazzo narrowly avoided a runoff election in the Republican Primary. Senator Thad Cochran was challenged by Chris McDaniel in one of the most closely watched primaries in the country. That race went to a runoff which Senator Cochran won. Copies of various articles relating to possible challengers and the political climate are attached in response to Question 1 submitted by the Commission.

With two-year election cycles and the normalization of primary challenges, a Member of

the House of Representatives never stops campaigning and requires a year-round campaign presence and activity, even in the off year. In preparation for what was proving to be a competitive re-election and a realistic replay scenario of the bitter 2014 midterm Mississippi Republican Primaries, it was necessary to identify and secure a campaign office.

Palazzo for Congress rented a vacant investment property owned by Steven Palazzo and managed by Greene Acres, LLC, located at 11072 Old Hwy 67, D'Iberville, MS 39540 from February 2018 until September 2019. The campaign office offered a centralized, convenient location in a major commercial district with east to west interstate access and direct access to high traffic areas along Highway 90. The location has convenient access to major corridors leading to densely populated areas of the northern part of the 4th Congressional District. No one lived in the house at the time of this lease, and it was used solely for campaign activity and storage of campaign signs and material. It is well established that a member/candidate can lease property he or she owns to their campaign, provided it is not the residence of the candidate or a family member.

Since June 24, 2009, Rep. Palazzo has maintained Greene Acres, LLC as a standard business practice to own and operate fixed assets. Greene Acres, LLC, is a single owner, investment property management company. Rep. Palazzo is the managing member and only member of Greene Acres, LLC.

The House Ethics Manual, 2008 Edition, p. 154, states:

Use for Bona Fide Campaign or Political Purposes

In General. While House rules provide that campaign funds may be used for “bona fide campaign or political purposes” only, the rules do not include a definition of that term. The Standards Committee has long advised that each Member has wide discretion to determine

whether any particular expenditure would serve such purposes, provided that the Member does not convert campaign funds to personal or official uses.

The House Ethics Manual, 2008 Edition, p. 170, states:

Purchase or Other Acquisition From the Member of a Member of His or Her Family. At times a Member (or a member of his or her family) has office space or other property that the person wishes to lease to the Member's campaign. Similarly, at times a family member of a Member wishes to sell certain goods or services to the Member's campaign.

Such a transaction is permissible under the House Rules only if (1) there is a bona fide campaign need for the goods, services, or space, and (2) the campaign does not pay more than fair market value in the transaction. Whenever a Member's campaign is considering entering into a transaction with either the Member or one of his or her family members, it is advisable for the Member to seek a written advisory opinion on the transaction from the Standards Committee.

If a Member's campaign does enter into such a transaction with the Member or a member of his or her family, the campaign's records must include information that establishes both the campaign's need for and actual use of the particular goods, services or space, and the efforts made to establish fair market value for the transaction.

The campaign, without question, had the need for the space, and Representative Palazzo has demonstrated the "actual use" of the property for campaign purposes. Because of the political landscape at the time, there was a clear need for a strong and visible campaign presence. The question of whether there is a bona fide need for a campaign office must be answered at the time the decision is made and not on hindsight years later.

During the period between February of 2018 and November of 2018 the property at

11072 Old Highway 67 was used as a campaign headquarters for Palazzo for Congress. The campaign headquarters was the regular place of business for several members of the campaign team as well as volunteers for the campaign. The property was used as a staging ground for many of the campaign activities including campaign sign assembly and distribution, coordination of routes for door-to-door campaigning, phone banking for potential voters, as well as the storage and distribution of other campaign materials. Everyday business was routinely conducted from the property ranging from campaign staff meetings, research, phone calls, and regular duties associated with the operation of a campaign including finance discussions and fundraiser planning and execution. Additionally, events involving volunteers were held at the property including a campaign volunteer appreciation cookout held on November 5, 2018.

Following the campaign of 2018, the property continued to be used as a staging ground and storage site for the campaign materials and was used for campaign activities as well but certainly not with the frequency as it was prior to the election of 2018.

Additional information on the use of the property for the campaign is attached in response to Question 1 submitted by the Commission to the Respondents in MUR 7680 that should rebut the "reasonable inference" made by the Commission. Respondents submit that the evidence demonstrates the need and actual use of this property for a campaign office. The Congressman did not ever spend the night there. He did not store his clothes there or otherwise ever use it as his residence during the time of this lease. The checks for the moving payments for the campaign office to Fayard Moving were cut on 2/28/18 and 09/23/19, which is consistent with the time of the lease. The issue now should shift to whether the Committee paid at or below Fair Market Value for this use of this space as a campaign office.

Attached in response to Question 5 regarding the Palazzo for Congress campaign office

in D'Iberville, is an email from Cameron Bell, a local realtor that demonstrates that the campaign paid less than fair market value to lease the space. Mr. Bell, in his email dated February 14, 2018 stated that "a comparable lease property is \$12/square foot. Which at 3,856 sf, would put this property in the range of \$46,272 per year, or \$3,856 per month."

Any expenses paid by the campaign were authorized under the terms of the lease and were reasonable and necessary, and Representative Palazzo paid significant expenses out of his personal account for the property for which he did not get reimbursed by the campaign. Those expenses were for various repairs for the roof, windows, kitchen, and other items totaling \$33,375. A summary of those items paid by the Congressman are attached as part of the response to Question 2 of the Campaign Office questions, even though these funds were paid by the Congressman and not by the Committee. If he was trying to obtain funds for "personal use" then he would have had the Committee pay those expenses as well, and he did not. Any expenses related to the river house property that were paid by the campaign, were, in fact, allowable campaign expenses and in compliance with all rules and applicable laws, and not for personal use.

One final point, upon review it was determined that he received the final rent check from the Committee and moved the campaign out of the river house a few days later. While he could have kept a pro rata portion, the Congressman returned the full month's lease payment to the Committee in the amount of \$3,000.00. A copy of that check is attached in response to question 7 regarding the campaign office.

B. Leased Cars and Accounting Expenses

The campaign leased a Chevy Tahoe in December of 2016 to enable the Congressman and his team to cover the district for campaign and official purposes. The Commission is aware of the

large geographic area encompassed by the Fourth Congressional District. The decision was made to designate 20% as personal use until December, 2020 at which time it went to 50%, and in January, 2021, the Congressman began paying for all payments and expenses, and billing the campaign for milage when appropriate, or the MRA if it was a trip in his official capacity. We have asked the Treasurer to perform an audit of all automobile expenses related to leased vehicles from 2016 to the present and hope to provide that information to the Commission in the very near future. Additional information, including emails from the Congressman to the Treasurer's firm, has been provided in response to the MUR questions regarding Campaign vehicle reimbursements that will help demonstrate that these expenses were campaign related and in no way did Congressman Palazzo convert campaign funds to personal use.

Two Tahoes have been leased. The first for two years and the current one is under a three year lease that expires in December, 2021. Both of those leases will be provided as soon as possible. As the Commission has stated, vehicle expenses are evaluated on a case-by-case basis as set forth in 11 C.F.R. § 113.1(g)(1)(ii)(D).

C. Utilizing two accounting firms was a reasonable and necessary expense for Palazzo for Congress.

Breazeale, Saunders & O'Neil prepared and filed FEC reports for Palazzo for Congress and for Patriot PAC, provided consulting services to the campaign and assured that both the campaign and the PAC complied with all applicable rules. Palazzo & Company provided other professional services on an almost daily basis, including general ledger, bill paying, banking, correspondence, financial management, data management and other accounting services. David Domonkos was the primary point of contact at Palazzo & Company for the Campaign and when he resigned from the firm and moved to Texas, Palazzo for Congress then moved all accounting activity to

Breazeale, Saunders & O'Neil.

The amount paid to both firms over the years was reasonable and necessary and Congressman Steven Palazzo operated fully within all rules and regulations. As we look again at the House rules, a family member can sell services to a Member's campaign provided it was a bona fide need of the campaign and that the payments were reasonable and did not exceed fair market value. Clearly, the amounts paid were reasonable as incurred and paid, irrespective of the fact that a cumulative total appears significant because the services were utilized over a period of many years.

The two firms did not perform duplicative work and information is attached demonstrating the work done by each firm in response to the four questions regarding "Palazzo for Congress accounting payments." No FEC reports have been provided as those were all submitted by Breazeale, Saunders & O'Neil, Ltd. and readily available to the Commission.

From the time Congressman Palazzo joined Congress in 2011, Palazzo & Company has been solely owned by his former spouse, Lisa Palazzo. From the beginning of his congressional career, his day-to-day campaign financial activity was administered for the campaign by Palazzo & Company accountant David Domonkos. In his role with Palazzo & Company, Mr. Domonkos handled the general ledger for the campaign, paid campaign bills, organized and transmitted bulk correspondence on behalf of the campaign, and provided other financial and data management services. In exchange for the work, Palazzo for Congress paid Palazzo & Company \$1,000 per month until Mr. Domonkos left the firm.

As Palazzo for Congress is required by federal law to make periodic filings with the FEC, Mr. Breazeale serves as the Treasurer for the campaign. Mr. Breazeale is an experienced campaign Treasurer, as he has served in that capacity for many other political campaigns over the years.

During the time Palazzo & Company was providing services to the campaign, Mr. Breazeale's firm handled the preparation and filing of the periodic FEC reports on behalf of the campaign. In July 2019, Breazeale, Saunders & O'Neil took over all the accounting services for the campaign.

All of the accounting services provided by Palazzo & Company were routine and were necessary for the carrying on of the day-to-day campaign activity of a Congressman who regularly faced viable opposition in his bids for re-election. The juxtaposition of the accounting costs incurred by Palazzo for Congress with other members of the Mississippi delegation does nothing to establish fair market value of the services that were rendered by Palazzo & Company. The other Members of Congress from Mississippi have not routinely faced viable opponents, even during mid-term elections. The \$1,000 per month paid to Palazzo & Company would equate to 10 hours of work per month at the low rate of \$100 per hour. Given the breadth of work done by Mr. Domonkos, the only reasonable conclusion to draw is that Palazzo & Company was providing its services at or below fair market value. Moreover, if it was the intent of Congressman Palazzo to pay Palazzo & Company for sham services, the campaign would have continued to pay Palazzo & Company even after Mr. Domonkos left.

The use of Mr. Breazeale's firm for the purpose of making the required periodic FEC filings was both reasonable and cost effective. Mr. Breazeale's work as Treasurer put him in the best position to compile and submit the FEC reports. The invoices reflect that Palazzo & Company would prepare the data from the general ledger needed for the FEC reports, and that Mr. Breazeale would take that information, along with his records as Treasurer and file the FEC reports each time they were due. FEC reports are also routinely amended due to the time required to process receipts and payments, and to correct the inevitable errors that will occur from time to time.

Once Mr. Domonkos left Palazzo & Company, the campaign consolidated its accounting work at Breazeale, Saunders, & O'Neil. There is no reasonable basis upon which to base a belief that the campaign and/or its Treasurer were involved in any violation of campaign finance laws, particularly with regard to the services provided by Palazzo & Company. These payments to Palazzo & Company in no way constituted personal use.

D. Other Committee Payments Were Appropriate

In addition to the house, vehicle, and accounting service payments, the Complaint 7 briefly alleges that several other Committee expenses are problematic, and the Response does not explain them. First, the Response does not explain the approximately \$5,600 in payments for a "trailer" and an "enclosed trailer" in 2018. The company receiving most of the payments, Ranchland Tractors, primarily sells tractors and ATV vehicles and no information is available about the other vendor, MCPal Co. Inc. The trailer was used for storage of campaign materials and signs.

Secondly, the Committee paid \$3,135.60 for a golf cart on February 15, 2016, for a campaign event, but the response provides no information about its use and states that the cart was later sold and the proceeds redeposited into the campaign account. The Committee's disclosure reports reveal that the Committee sold the golf cart for \$7,500 on December 30, 2016.

Congressman Palazzo and his campaign will cooperate fully to allow the Commission to complete this matter. No subpoena will be necessary for interviewing any person or providing any document. No one has converted campaign money to personal use and hopefully this information will clarify most, if not all, of the concerns had by the Commission. We will work with the Committee to reach a resolution, hopefully before the 2022 primary begins.