

**BEFORE THE FEDERAL ELECTION COMMISSION**

In the Matter of	)	
	)	
Palazzo for Congress and Paul Kilgore	)	MUR 7680
in his official capacity as treasurer	)	
Steven Palazzo	)	

**SECOND GENERAL COUNSEL’S REPORT**

**I. ACTIONS RECOMMENDED**

We recommend that the Commission: (1) authorize pre-probable cause conciliation with Palazzo for Congress and Paul Kilgore in his official capacity as treasurer (the “Committee”) and Steven Palazzo in connection with violations of 52 U.S.C. § 30114(b); and (2) approve the attached proposed conciliation agreement.<sup>1</sup>

**II. BACKGROUND**

The Commission found reason to believe that Palazzo and the Committee violated 52 U.S.C. § 30114(b) by converting campaign funds to personal use.<sup>2</sup> The Commission’s finding was based on information showing that the Committee paid Steven Palazzo, then a candidate for re-election to U.S. Congress, \$3,000 in monthly rent from February 2018 to August 2019 to lease a riverfront property (the “River House”) owned by Palazzo as a campaign office; that the River House may have been used as a residence by Palazzo’s brother, Kyle Palazzo, during the lease; that the Committee concurrently paid two accounting firms, including one founded by Palazzo and owned by Palazzo’s ex-wife, Palazzo & Co.; unexplained and

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<sup>1</sup> Paul Breazeale was the Committee’s treasurer until December 2021 when Kilgore took over. *See* Palazzo for Congress, Amended Statement of Organization at 1 (Dec. 29, 2021), <https://docquery.fec.gov/pdf/270/202112299474743270/202112299474743270.pdf>; Palazzo for Congress, Statement of Organization at 1 (Feb. 26, 2010), <https://docquery.fec.gov/pdf/934/10030261934/10030261934.pdf>. As treasurer, Breazeale responded to the Complaint on behalf of the Committee and is a partner in one of the two accounting firms paid by the Committee, as discussed *infra* in Part III.E.

<sup>2</sup> *See* Amended Certification (“Cert.”) (Feb. 10, 2021).

1 seemingly high payments for campaign vehicles; and several payments by Palazzo reimbursing  
 2 the Committee for “personal use” expenses.<sup>3</sup> Shortly after the Commission found reason to  
 3 believe and authorized this investigation, the Committee on Ethics of the U.S. House of  
 4 Representatives (“House Ethics Committee”) released the results of the Office of Congressional  
 5 Ethics’ (“OCE”) investigation into, among other things, the Committee’s payments made in  
 6 connection with the River House, potential use of the River House as a residence during the  
 7 Committee’s lease, and payments to the accounting firm, Palazzo & Co.<sup>4</sup>

8 Our investigation, buttressed by materials identified by OCE, established that many of the  
 9 Committee’s payments, including those for a purported “campaign office” at the River House,  
 10 vehicle expenses, and a variety of miscellaneous goods constituted personal use violations by the  
 11 Committee and Palazzo. The available information, however, was inconclusive as to whether the  
 12 River House was used as a residence by Kyle Palazzo during the Committee’s lease. Finally, the  
 13 investigation produced sufficient information concerning the accounting services provided by  
 14 Palazzo & Co. that we recommend the Commission take no further action on the Committee’s  
 15 payments to the firm.

16 For the reasons set forth below, we recommend that the Commission authorize pre-  
 17 probable cause conciliation with the Committee and Palazzo for converting campaign funds to  
 18 personal use and failing to accurately report disbursements [REDACTED]

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<sup>3</sup> Factual & Legal Analysis (“F&LA”) at 3-16 (Palazzo for Congress, *et al.*).

<sup>4</sup> See OFF. OF CONG. ETHICS, REFERRAL REGARDING REP. STEVEN PALAZZO (Mar. 1, 2021), <https://oce.house.gov/reports/investigations/oce-reportreferral-regarding-rep-steven-palazzo> (“OCE Report” and “OCE Exs.”) [REDACTED] OCE referred the case to the House Ethics Committee on September 2, 2020, and the House Ethics Committee released the OCE documents on March 1, 2021. The House Ethics Committee has not made information regarding its investigation public. OCE also investigated issues not within the Commission’s jurisdiction. See OCE Report ¶¶ 98-129 (discussing possible misuse of the Members’ Representational Allowance (“MRA”) and performance of a special favor for a family member). Palazzo lost the 2022 primary election, thus ending the House Ethics Committee’s jurisdiction after he left office on January 3, 2023.

### III. RESULTS OF THE INVESTIGATION

During the investigation, we reviewed information provided by Respondents and documents and information made public by OCE. We also interviewed David Domonkos, one of the Committee's accountants at Palazzo & Co., and Lela Bremen, a former staffer in Palazzo's District Office in Mississippi, and deposed Kyle Palazzo, Steven Palazzo's brother and a Committee employee.

#### A. The River House

Commission disclosure reports and OCE documents indicate that from February 2018 to August 2019, the Committee paid \$3,000 per month for "rent" to Greene Acres, LLC, an entity solely owned by Steven Palazzo.<sup>5</sup> Respondents state that the monthly payments represented rent for use of the River House, located at 11025 Old 67 Highway, D'Iberville, Mississippi, as a campaign office.<sup>6</sup> The property includes a large riverfront house, a boat dock, and a guest cottage.<sup>7</sup> Disclosure reports also indicate that, in addition to the monthly rent payments, the

<sup>5</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=green&two\\_year\\_transaction\\_period=2018&two\\_year\\_transaction\\_period=2020](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=green&two_year_transaction_period=2018&two_year_transaction_period=2020) (last visited Nov. 20, 2023) (reflecting all disbursements made by the Committee to "Green" during the 2018 and 2020 election cycles). The initial two rent payments were made to "Green Acres, LLC" rather than "Greene Acres, LLC." Additionally, the first disbursement for rent in May 2018 was for \$9,000, not \$3,000; the OCE documents include a ledger noting that the May 2018 rent payment covered the rent for February, March, and April 2018. See Palazzo for Congress, 2018 July Quarterly Report at 46 (July 15, 2018), <https://docquery.fec.gov/pdf/347/201807159115541347/201807159115541347.pdf>; OCE Exs., Pt. 7 of 10, p. 34 (Ex. 21: Table of Committee's Transactions with "Greene Acres, LLC").

<sup>6</sup> See generally Palazzo & Palazzo for Congress RTB Resp. (May 17, 2021) ("RTB Resp.").

<sup>7</sup> See OCE Report ¶ 41.

Committee made payments during its lease for utilities, maintenance, and repairs to the River House.<sup>8</sup>

1. Committee Payments for Rent, Maintenance, Utilities, and Home Improvements

The River House had been in the Palazzo family for many years.<sup>9</sup> Beginning in 2016, Palazzo's parents sought to sell the River House with Palazzo's assistance.<sup>10</sup> In emails obtained by OCE, Palazzo noted that "time is of the essence for my parents to move their properties[,] . . . River House being the top priority" but that the home required "updates."<sup>11</sup> Ultimately, Palazzo purchased the property from his mother in October 2017.<sup>12</sup> The purchase, however, created a financial strain on Palazzo, and he planned to sell it as soon as possible.<sup>13</sup> In a January 2, 2018 email to Cameron Bell, a real estate agent working with Palazzo to sell the property, Palazzo said, "I just want to sell it or find some contractors to fix it without costing an arm and a leg and sell it for a little more. I can't afford to take a huge loss."<sup>14</sup> Three weeks later, Palazzo emailed a draft lease for the River House to the Committee's then-treasurer, Paul Breazeale. In that

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<sup>8</sup> See *infra* pages 7-8 (listing utility payments); *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=coast+electric&two\\_year\\_transaction\\_period=2020&two\\_year\\_transaction\\_period=2018](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=coast+electric&two_year_transaction_period=2020&two_year_transaction_period=2018) (last visited Nov. 20, 2023) (reflecting disbursements by the Committee to "Coast Electric" between 2017 and 2020); OCE Report ¶ 55 (summarizing the provisions of the lease requiring the Committee to pay for utilities on the property).

<sup>9</sup> See Kyle Palazzo Dep. at 7:24, 9:8-9 (Jan. 26, 2022).

<sup>10</sup> See OCE Report ¶ 42 n.53 (summarizing conversations with a real estate agent who had represented Palazzo's parents in their efforts to sell River House).

<sup>11</sup> OCE Exs., Pt. 7 of 10, p. 49 (Ex. 27: May 11, 2017 email from Palazzo to Bell).

<sup>12</sup> See OCE Report ¶¶ 42-43.

<sup>13</sup> See OCE Report ¶¶ 46-47; OCE Exs. Pt. 7 of 10, pp. 47-48 (Ex. 26: May 10, 2016 email from Palazzo to Bell); OCE Exs., Pt. 7 of 10, pp. 130-31 (Ex. 39: July 31, 2017 email from Palazzo to Bell ("If the RH doesn't sell then I will have sell farm to borrow to cover debt on RH.")).

<sup>14</sup> OCE Exs., Pt. 7 of 10, p. 138-39 (Ex. 42: January 2, 2018 email from Palazzo to Bell).

email, Palazzo wrote that “[m]ortgage plus insurance and tax [for the property] are right at \$3,000” per month.<sup>15</sup>

During the Committee’s lease of the River House, Palazzo continued to try to sell the property.<sup>16</sup> On March 13, 2018, Palazzo informed Bell in an email that, “This week lawn care starts on river house. Pressure washing walls. Have you gotten any calls?”<sup>17</sup> On March 19, 2018, the Committee received an invoice from Cleanology Pro Cleaning Services, LLC, for “Riverhouse Pressure Wash, Riverhouse Flowerbeds, Riverhouse lawn,” totaling \$2,925.<sup>18</sup> On April 3, 2018, Palazzo rejected a potential short-term lease offer for the River House sent by Bell, saying, “Not at this time. I’m trying to get the basic renovations done and things spruced up and that would only further delay me.”<sup>19</sup>

The Committee paid for numerous other repairs, maintenance, and electrical service:

Lawncare and Landscaping		
Date	Recipient	Amount
6/14/2019	H&H Lawncare	\$600
8/16/2019	H&H Lawncare	\$1,000
10/14/2019	H&H Lawncare	\$400
Total:		\$2,000

<sup>15</sup> OCE Exs., Pt. 7 of 10, pp. 144-67 (Ex. 44: January 29, 2018 email from Palazzo to Breazeale).

<sup>16</sup> See OCE Exs., Pt. 7 of 10, pp. 37-39 (Ex. 23: MLS listing dated February 22, 2018). Bell described River House as follows: “This majestic, one-of-a-kind waterfront home was built in 1920 with the character, charm, and craftsmanship you won’t find elsewhere! Perched on 1.4 acres atop one of the highest points along the Tchoutacabouffa River, it features stained glass windows, tiling and beautiful hard wood flooring. It is private with a garage apartment, dock, large second floor deck, courtyard (ideal for entertaining) and water views all around. Adjacent .63 acres also included.” *Id.*

<sup>17</sup> OCE Exs., Pt. 8 of 10, pp. 89-90 (Ex. 63: March 13, 2018 email from Palazzo to Bell); see also OCE Exs., Pt. 7 of 10, pp. 116-17 (Ex. 35: April 18, 2018 email exchange between Palazzo and Bell) (“Recap on any interest or feedback on properties. When your time permits.”). Bell responded on April 19, 2018: “As usual, we have had a serious [*sic*] of random interested parties in the River House, but they all say it’s too much for the work needed . . . .” *Id.*

<sup>18</sup> OCE Exs., Pt. 8 of 10, pp. 86-88 (Ex. 62: April 3, 2018 email from Palazzo to Bell). The Committee paid the full amount for “cleaning services” on March 26, 2018. See Palazzo for Congress, Amended 2018 April Quarterly Report, Sched. B at 57 (Sept. 24, 2018), <https://docquery.fec.gov/cgi-bin/fecimg/?201809249124238606>.

<sup>19</sup> OCE Exs., Pt. 8 of 10, pp. 86-88 (Ex. 62: April 3, 2018 email from Palazzo to Bell).

<b>Cleaning Services</b>		
<b>Date</b>	<b>Recipient</b>	<b>Amount</b>
3/26/2018	Cleanology	\$2,925 (noted in text above)
4/10/2018	Cleanology	\$400
4/24/2018	Cleanology	\$150
5/7/2018	Cleanology	\$150
6/8/2018	Cleanology	\$150
10/1/2018	Cleanology	\$300
2/5/2019	Jessica Cooper	\$90 (notated as "final cleaning")
7/29/2019	Miss Bree's Cleaning	\$275
9/23/2019	Miss Bree's Cleaning	\$325 (also notated as "final cleaning")
<b>Total:</b>		<b>\$4,765</b>

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<b>Repairs and Maintenance</b>		
<b>Date</b>	<b>Recipient</b>	<b>Amount</b>
3/23/2018	Ball Heating & Air	\$340
3/26/2018	3D Glass Co.	\$254.69
7/24/2018	Paul Cannette	\$125
8/14/2018	Paul Cannette	\$125
11/11/2018	Glass Doc	\$963.65
11/11/2018	North Bay Heating and Air	\$737.23
12/6/2018	Lowe's of D'Iberville	\$380.18
12/6/2018	Pounds Plumbing	\$645.18
12/6/2018	Sherwin Williams	\$214.44
12/6/2018	Home Depot- Biloxi	\$53.47
12/10/2018	Roy Sheriff	\$510.77
1/12/2019	Kendall Dunn	\$594.81
1/12/2019	Home Depot	\$168.47
4/23/2019	Lowe's	\$89.79
5/13/2019	Dunaway Glass	\$337.85
6/18/2019	North Bay Heating and Air	\$224.70
7/22/2019	Lowe's	\$222.57
7/23/2019	Lowe's	\$7.98
8/27/2019	Glass Doc (possible car expense)	\$237.25
<b>Total:</b>		<b>\$6,233.03</b>

According to Kyle Palazzo, the repairs and maintenance were necessary for the River House to function as a campaign office.<sup>20</sup> Respondents state that “the property had to look presentable and be safe for the use as a campaign office for staff and volunteers.”<sup>21</sup> Respondents submitted copies of checks showing Palazzo also paid for repairs at the River House through Green Acres, his LLC,<sup>22</sup> arguing that these payments show that campaign expenses were paid by the Committee and personal expenses were paid by Palazzo personally.<sup>23</sup>

According to disclosure reports filed with the Commission, the Committee also made utility payments for service to the property. These utility payments included payments for services and buildings on the property other than the main house, which included service connections in Palazzo’s mother’s name.<sup>24</sup>

<b>Electric Utilities (all to Coast Electric)</b>	
<b>Date</b>	<b>Amount</b>
3/1/2018	\$514.99
3/26/2018	\$152.65
4/24/2018	\$119.25
4/24/2018	\$67.40
6/8/18	\$240.26
7/9/2018	\$426.69
7/27/2018	\$467.42
8/24/2018	\$455.70
9/21/2018	\$370.11
10/22/2018	\$397.78
11/29/2018	\$336.69
12/7/2018	\$98.00
12/20/2018	\$546.00

<sup>20</sup> Kyle Palazzo Dep. at 26:1-10.

<sup>21</sup> RTB Resp. at 92.

<sup>22</sup> *Id.* at 142-58 (showing Green Acres LLC bank statements and cancelled checks, primarily payable to Sam Burns, apparently a general contractor, totaling \$30,750 from April 30, 2018, to July 26, 2018). Some of the checks Respondents provided note “farm,” representing work not performed at River House.

<sup>23</sup> RTB Resp. at 9.

<sup>24</sup> *Id.* at 118.

<b>Electric Utilities (all to Coast Electric)</b>	
<b>Date</b>	<b>Amount</b>
12/27/2018	\$692.00
1/23/2019	\$201.52
2/20/2019	\$96.92
3/12/2019	\$687
4/1/2019	\$296
4/15/2019	\$103.88
4/29/2019	\$197.17
5/1/2019	\$58
5/14/2019	\$47
6/14/2019	\$93.29
6/14/2019	\$231
6/14/2019	\$58
7/18/2019	\$93.29
7/26/2019	\$76
7/26/2019	\$284
8/16/2019	\$93.29
8/27/2019	\$328
9/23/2019	\$195.80
10/24/2019	\$55.10
11/11/2019	\$88.29
<b>Total:</b>	<b>\$8,168.49</b>

The Committee also made payments to Cable One/Sparklight for internet service, with the first payment on June 1, 2018, and the last dated September 23, 2019. Those payments total \$4,225.37, split almost evenly between payments in 2018 (\$2,089.29) and 2019 (\$2,136.08).<sup>25</sup>

Palazzo closed on the sale of the River House on August 29, 2019, just after the Committee's last rent payment to Green Acres, his LLC. Altogether, the Committee paid Palazzo, through his LLC, \$60,000 in purported rent for the River House.<sup>26</sup> The Committee's

<sup>25</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Cable&recipient\\_name=Spark](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Cable&recipient_name=Spark) (last visited Nov. 20, 2023) (reflecting all disbursements by the Committee to "Cable" or "Spark"). Over the years, the Committee's payments for internet service largely coincided with the time period before a primary election. *See id.*

<sup>26</sup> On January 8, 2021, Palazzo reimbursed the Committee \$3,000 for "overpayment of rent," which was likely for the September 2019 payment. *See FEC Receipts: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/receipts/?data\\_type=processed&committee\\_id=C00477323&contributor\\_name=steven+palazzo](https://www.fec.gov/data/receipts/?data_type=processed&committee_id=C00477323&contributor_name=steven+palazzo) (last visited Nov. 28, 2023) (reflecting all Committee receipts from "Steven Palazzo").



1 last payment was also around the same time that the Committee stopped paying salary to Kyle  
 2 Palazzo.<sup>27</sup>

3 In Response to the Complaint, Respondents provided the lease agreement between  
 4 Palazzo and the Committee for the River House.<sup>28</sup> The one-year lease, with automatic one-year  
 5 renewal, started on February 1, 2018, and is dated the same day.<sup>29</sup> It also provides that the  
 6 landlord may cancel with 90 days' notice.<sup>30</sup>

7 To support their assertion that the \$3,000 per month rent paid by the Committee was  
 8 "less" than fair market value,<sup>31</sup> Respondents provided a February 14, 2018 email from real estate  
 9 agent Bell, who wrote that the closest "'comparable' lease property is \$12 per square foot,"  
 10 calculating that for the almost-4,000 square foot River House, monthly rent of \$3,856 could be  
 11 charged, "so very closely in line with the proposed asking residential lease rate of \$4,000 per  
 12 month."<sup>32</sup> Bell noted that for a potential commercial lease, a prospective tenant might request  
 13 improvements to make it more suitable for a commercial use, "as [the River House] is only  
 14 functional as a residence at this time."<sup>33</sup> In an earlier email exchange between Palazzo and Bell  
 15 dated January 2, 2018, however, Bell "guess[ed]" that the house itself could rent for \$2,500 to

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<sup>27</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Kyle+Palazzo&disbursement\\_description=contract&disbursement\\_description=net+payroll&disbursement\\_description=salary](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Kyle+Palazzo&disbursement_description=contract&disbursement_description=net+payroll&disbursement_description=salary) (last visited Nov. 20, 2023) (reflecting all disbursements by the Committee to Kyle Palazzo for "net payroll," "salary," and "contract").

<sup>28</sup> Resp. at 17-19 (Feb. 13, 2020) (enclosing "Lease Agreement by and between Steven Palazzo, as Landlord and Palazzo for Congress, as Tenant").

<sup>29</sup> *Id.* at 18-19. It is not clear whether the lease was executed on February 1, 2018, or at a later date. Materials provided to OCE in connection with their investigation indicate that Palazzo and Breazeale corresponded on February 15, 2018, concerning rental amount estimates and exchanged an unexecuted contract. See OCE Report ¶¶ 53-54.

<sup>30</sup> Resp. at 18.

<sup>31</sup> *Id.* at 9.

<sup>32</sup> RTB Resp. at 161-62.

<sup>33</sup> *Id.*

1 \$3,000 a month and the separate apartment on the property could rent for \$500 to \$600 per  
 2 month, depending on improvements, though Bell also noted that “[t]he house is virtually  
 3 impossible to value via comparable rentals, due to its uniqueness.”<sup>34</sup> Bell also noted that it might  
 4 be difficult to rent the house and the apartment separately to different tenants concurrently.<sup>35</sup>

## 5 2. Campaign Activity at the River House During Lease

6 Respondents contend that the River House was used to “support routine campaign  
 7 activity and establish a visible campaign presence” for the 2018 election cycle and future  
 8 elections.<sup>36</sup> According to the Committee, it used the River House from February 2018 to  
 9 November 2018 “as a staging ground . . . including [for] campaign sign assembly and  
 10 distribution, coordination of routes for door-to-door campaigning, phone banking for potential  
 11 voters, as well as the storage and distribution of other campaign materials.”<sup>37</sup> Everyday  
 12 activities included campaign staff meetings, research, phone calls, fundraiser planning, and  
 13 volunteer events.<sup>38</sup> Respondents state that from August 2018 until the general election on  
 14 November 6, 2018, a campaign worker was at the River House every day in order to map out  
 15 “areas for door-to-door contacts” and that staff meetings were held weekly.<sup>39</sup> In addition,  
 16 campaign signs were reportedly assembled, and later picked up by volunteers, at the River

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<sup>34</sup> OCE Exs., Pt. 7 of 10, pp. 138-39 (Ex. 42: January 2-3, 2018 emails between Palazzo and Bell).

<sup>35</sup> *Id.*

<sup>36</sup> RTB Resp. at 5. “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.” *Id.* at 6. Palazzo also had a District Office during this time period, initially in Biloxi, about four miles away from D’Iberville, and later in Gulfport, about 15 miles away.

<sup>37</sup> *Id.* at 8.

<sup>38</sup> *Id.* at 7-8.

<sup>39</sup> *Id.* at 14-15.

House.<sup>40</sup> On the night before the general election, the campaign asserts that it hosted a volunteer appreciation cookout at the River House involving 15-20 volunteers.<sup>41</sup>

In support of its contention that the Committee used River House as a campaign headquarters, Respondents submitted photographs showing campaign workers and Palazzo at the River House on primary election night, a campaign worker “assembling campaign signs,” and photos of campaign workers at a “volunteer appreciation event.”<sup>42</sup> Respondents also provided a timeline that identified dates and events that occurred at the River House.<sup>43</sup> According to the Committee’s timeline, the campaign moved materials into the River House from a storage unit around February 23, 2018,<sup>44</sup> scheduled campaign calls on March 6 and April 24,<sup>45</sup> and had volunteers pick up campaign materials on March 23 and June 4.<sup>46</sup>

The Office of General Counsel (“OGC”) took the deposition of Palazzo’s brother, Kyle Palazzo. In his deposition, Kyle Palazzo, who worked for the campaign from October 2018 through July 2019, described the interior of the River House as being empty upstairs while the downstairs “had three to four office desks, maybe two desktops, a bunch of, like, landline phones and fax machines and printer.”<sup>47</sup> He said, “the kind of outside” area, likely the interior

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<sup>40</sup> *Id.* at 15.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* at 17-19; *see also* OCE Exs., Pt. 8 of 10, pp. 6-15 (Ex. 57: Additional photos of November 5, 2018 volunteer event).

<sup>43</sup> *See* RTB Resp. at 14.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> Kyle Palazzo Dep. at 17:9-12.

1 courtyard, contained the “swag,” bumper stickers, merchandise, campaign sign materials, and  
2 some office supplies.<sup>48</sup>

3       Following the 2018 general election, according to Respondents, “the property continued  
4 to be used as a staging ground and storage site for the campaign materials and was used for  
5 campaign activities as well but certainly not with the frequency as it was prior to the election of  
6 2018.”<sup>49</sup> Respondents, however, provided scant details regarding use of the River House after  
7 the 2018 general election. Respondents submitted an unsolicited email received from a potential  
8 buyer of the River House.<sup>50</sup> Respondents state that the individual wrote the email in response to  
9 news articles questioning the River House’s use as a campaign office.<sup>51</sup> The potential buyer  
10 wrote that in November 2018, he “looked at the property in D’Iberville twice . . . and when I  
11 went there a large section of the house *was clearly still being packed up from being used as a*  
12 *campaign office*. The rooms that are outdoor/indoor still had campaign t-shirt shelves in them  
13 with some shirts and other assorted swag and the kitchen and downstairs still had desks and some  
14 signs, etc.”<sup>52</sup>

15       Kyle Palazzo, who continued to be employed by the Committee through July 2019, said  
16 that he worked at the River House after the 2018 election. He explained that he primarily used  
17 the River House’s internet connection to monitor Steven Palazzo’s social media accounts and  
18 respond to campaign emails, and he helped collect and store large campaign signs that had been

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<sup>48</sup> *Id.* at 17:12-18.

<sup>49</sup> RTB Resp. at 8.

<sup>50</sup> *Id.* at 16.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* (emphasis added). The potential buyer continued, “I just wanted to send out this email in case you all need anyone to corroborate that the D’Iberville house was being used for your campaign.” *Id.*

used in the election.<sup>53</sup> In support of its use as a campaign office in the nine months after the 2018 election, Respondents submitted six “emails and calendar events” sent by Kyle Palazzo to Palazzo employees in 2019, typically titled “Weekly Look Ahead” and “Weekly Outlook.”<sup>54</sup> However, none of the events listed in the six emails were to take place at the River House.

In his deposition, Kyle Palazzo could not identify any campaign meetings held at the River House in 2019:

Q: Was there anyone else working with you at the River House in 2019?

A: Not, like, permanent, but I mean, it was very common for staff to show up, come through. We had several meetings there.

Q: What kinds of meetings would be happening in 2019 for the campaign committee?

A: I don't know the time reference. That was more at the beginning whenever I got there [in 2018]. I don't — I wouldn't know about — I'm sorry, I didn't hear you say in specifically 2019. But I know we had several there whenever I first got there.<sup>55</sup>

For many years prior to renting the River House, the Committee had regularly paid monthly storage fees, primarily to John Fayard Moving and Storage.<sup>56</sup> The storage payments stopped, however, around the time that the Committee began to lease the River House and resumed when the Committee's lease of the River House ended. Prior to February 2018, the Committee paid Fayard \$127 a month for storage. After a March 23, 2018 \$127 payment, the

<sup>53</sup> Kyle Palazzo Dep. at 22:11-17, 26:14-22.

<sup>54</sup> RTB Resp. at 79-89.

<sup>55</sup> Kyle Palazzo Dep. at 30:21-31:7.

<sup>56</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Fayard](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Fayard) (last visited Nov. 20, 2023) (“Fayard Disbursements”) (reflecting all Committee disbursements to “Fayard”). The Committee also paid Handy Lock Management \$175 a month for storage, but its last such payment was made June 18, 2018, four months after payments began for the River House. See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Handy](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Handy) (last visited Nov. 20, 2023) (reflecting all Committee disbursements to “Handy”).

Committee made no further payments to Fayard for storage until November 22, 2019.<sup>57</sup> The Committee, in fact, paid Fayard \$841.42 on March 26, 2018, for “moving expense,” and then paid \$1,174.07 to Fayard again on September 23, 2019, for what it disclosed as another “moving expense.”<sup>58</sup> After the Committee’s September 2019 moving expense payment to Fayard, the Committee resumed monthly payments of \$160 to Fayard for storage.<sup>59</sup>

### 3. Use of the River House as a Residence During Lease

The Committee’s lease of the candidate’s home raised the possibility that a Palazzo family member may have resided at the River House during the lease. The OCE investigation identified “potential use of the River House as a residence” by Kyle Palazzo during the Committee’s lease.<sup>60</sup>

In its Response to the Commission’s findings at the reason-to-believe stage of the enforcement process, the Committee acknowledged that “two individuals” worked late one night, “consumed what they felt was too much wine,” and stayed the night at the River House.<sup>61</sup> The Committee did not identify those individuals.<sup>62</sup> OCE, however, deposed a former Palazzo District Office staff member, Lela Bremen, who testified that Kyle Palazzo “lived at the river — or I wouldn’t say lived there, but stayed there for quite a while . . . whatever time frame he was around . . . was when he would have been staying at the river house.”<sup>63</sup> According to Bremen,

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<sup>57</sup> See Fayard Disbursements.

<sup>58</sup> See *id.*

<sup>59</sup> See *id.*

<sup>60</sup> OCE Report ¶ 64.

<sup>61</sup> RTB Resp. at 159.

<sup>62</sup> Supp. RTB Resp. at 2 (Aug. 9, 2021).

<sup>63</sup> OCE Exs., Pt. 3 of 10, p. 128-Pt. 4 of 10, p. 102 (Ex. 11: Staffer B Deposition at 141:6-8, :19-21 (located in Pt. 4 of 10 at 69)) (“OCE Bremen Dep.”). Bremen is referenced as “Staffer B” in the OCE deposition transcript.

Kyle Palazzo “told me that and then him and [other office staffer], they spent the night there . . . then he talked about how they were going through a bunch of old pictures at the river house.”<sup>64</sup>

Bremen made similar statements in an interview with OGC. In that interview, Bremen said that Kyle Palazzo and another staffer would be “obvious” about staying there, and that he “absolutely” spent more than just one night there.<sup>65</sup> In his deposition, Kyle Palazzo initially denied staying at the River House,<sup>66</sup> but later acknowledged spending one night there during the period that the Committee rented the house as a campaign office.<sup>67</sup> He also stated that he had slept on the floor and that the River House was not a comfortable place to sleep, because all the home furnishings had been removed before the River House became a campaign office.<sup>68</sup> He stated in his deposition and counsel represented in an email to OGC that he was living with his then-girlfriend during the bulk of the time that the Committee leased the River House, and that he otherwise stayed in Alabama with his mother or Mississippi with his father or brother.<sup>69</sup>

In addition to Bremen’s testimony, the Commission’s disclosure database includes payroll disbursements made to Kyle Palazzo that identify his address as that of the River House.<sup>70</sup> According to his testimony, Kyle Palazzo had a long history with the River House; he

<sup>64</sup> [REDACTED] Counsel for Respondents confirmed that the “two individuals” he referred to in the RTB Response were Kyle Palazzo and a District Office staffer. [REDACTED]

<sup>65</sup> [REDACTED] *see also* Bremen Dep. at 145:5-146:3 (OCE Exs. Part 4 of 10, p. 73-74).

<sup>66</sup> Kyle Palazzo Dep. at 14:8-10.

<sup>67</sup> *Id.* at 23:25-24:16.

<sup>68</sup> *Id.* at 24:20-25:1.

<sup>69</sup> *See* Kyle Palazzo Dep. at 13:8-14:7; Email from Gregg Harper, Counsel for Respondents, to Elena Paoli, Att’y, FEC (Sept. 10, 2021, 17:25 EST).

<sup>70</sup> *See* *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Kyle+Palazzo&disbursement\\_description=contract&disbursement\\_description=net+payroll&disbursement\\_description=salary](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Kyle+Palazzo&disbursement_description=contract&disbursement_description=net+payroll&disbursement_description=salary) (last visited Nov. 20, 2023) (reflecting all Committee disbursements to Kyle Palazzo for “net payroll,” “salary,” and “contract”).

1 moved there during high school to live with his father and had been visiting for many years prior  
 2 to that.<sup>71</sup> He stated in his deposition that his driver's license still listed the River House address,  
 3 even though the house is no longer owned by his family members.<sup>72</sup> He could not provide  
 4 documentary evidence that he lived anywhere else at that time.<sup>73</sup> OGC attempted to contact his  
 5 ex-girlfriend, but she did not respond to phone calls or a letter.

## 6 **B. Payments for Vehicle Expenses**

7 The Committee's disclosure reports reveal tens of thousands of dollars in expenses for  
 8 campaign vehicles, primarily to pay for vehicle leases. From December 2016 until June 2021,  
 9 the Committee paid \$85,820.48 for vehicles expenses. Starting on December 15, 2016, the  
 10 Committee made monthly lease payments of \$1,064.21 for a 2016 Chevrolet Tahoe until  
 11 December 13, 2018. The Committee thereafter paid \$1,239.25 a month to lease a 2019  
 12 Chevrolet Tahoe until June 2021. In total, the Committee paid \$62,622.25 for car lease  
 13 payments.<sup>74</sup> From December 2016 to June 2021, the Committee also made payments totaling  
 14 \$23,198.23 for fuel, maintenance, vehicle insurance, tags, and other unidentified vehicle  
 15 "expenses."<sup>75</sup> At various times, the Committee has disclosed reimbursements by Palazzo for  
 16 personal use of the Committee vehicle.<sup>76</sup> Because Respondents maintained no mileage logs to

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<sup>71</sup> See Kyle Palazzo Dep. at 9:2-20.

<sup>72</sup> See *id.* at 29:1-8.

<sup>73</sup> *Id.* at 18:23-19:20.

<sup>74</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=GM+financial+leasing](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=GM+financial+leasing) (last visited Nov. 27, 2023) (reflecting all Committee disbursements to "GM Financial Leasing").

<sup>75</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&min\\_date=12%2F15%2F2016&disbursement\\_description=auto&disbursement\\_description=vehicle](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&min_date=12%2F15%2F2016&disbursement_description=auto&disbursement_description=vehicle) (last visited Nov. 20, 2023) (reflecting Committee disbursements since December 15, 2016, for "auto" and "vehicle"). The Committee has not disclosed a car lease payment since June 2021.

<sup>76</sup> See *infra* at 19 (chart of vehicle-related reimbursements).



1 track campaign and non-campaign use of the vehicles, the investigation focused on how Palazzo  
2 determined his personal usage of the vehicles.

3 Respondents assert that the Committee began to lease a Chevrolet Tahoe in December  
4 2016 “to enable the Congressman and his team to cover the district for campaign and official  
5 purposes,” noting the “large geographic area encompassed by the Fourth Congressional  
6 District.”<sup>77</sup> Respondents also claim that the Tahoe “was necessary to . . . call on supporters or  
7 work on official duties.”<sup>78</sup> The Committee states that the vehicles were kept in Mississippi and  
8 that in addition to Palazzo, only two Palazzo District Office employees drove the vehicles.<sup>79</sup>

9 By 2018, however, Palazzo acknowledged to the Committee treasurer that the vehicle had  
10 also been used for personal travel. Around June 2, 2018, “the decision was made” that Palazzo  
11 would designate 20% of the vehicle costs as personal and reimburse the Committee for that  
12 amount.<sup>80</sup> In an email to the Committee’s former treasurer, Palazzo wrote that “[t]he campaign  
13 has been leasing a Chevy Tahoe since last November. I believe 20% or less of the usage is  
14 personal. . . . Could you direct [Palazzo & Co. staff accountant] to calculate what I owe for the  
15 use of the Chevy Tahoe and set it up as a payable from me at the 20% level. Guess for the  
16 paperwork he could invoice me.”<sup>81</sup> Respondents acknowledged in their Response to the

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<sup>77</sup> RTB Resp. at 10.

<sup>78</sup> *Id.* at 202.

<sup>79</sup> Email from Gregg Harper, Counsel for Respondents, to Elena Paoli, Att’y, FEC (May 13, 2022, 15:05 EST) (“May 13 Harper Email”) (listing the district director and office manager as the other drivers of campaign vehicles).

<sup>80</sup> RTB Resp. at 166 (responding to OGC’s request for mileage logs).

<sup>81</sup> *Id.* at 180 (June 2, 2018 email from Steven Palazzo to Paul Breazeale). When Palazzo wrote the June 2018 email, it appears he mistakenly believed the lease payments by the Committee started in November 2017 when they in fact started in December 2016.

Commission's reason to believe findings, however, that the Committee did not maintain mileage logs tracking non-campaign use of the vehicles.<sup>82</sup>

The Respondents also state that a "decision was made" in December 2020 to increase the reimbursement rate to 50%.<sup>83</sup> Then, in an April 13, 2021 email, Palazzo wrote, "When it comes to the Tahoe I'm thinking it would be best to takeover [sic] all cost [sic] and then submit a mileage reimbursement to [the Committee] for campaign travel ... and *begin the mileage reimbursement based on usage*. This is likely the simplest and cleanest way of justifying and documenting use."<sup>84</sup> His decision to pay for the entire costs of the campaign vehicles was backdated to the beginning of the year.<sup>85</sup> Thus, Respondents said that starting with the January 2021 payment, Palazzo began paying all lease costs and expenses and billing the campaign or using his Member's Representational Allowance ("MRA")<sup>86</sup> to receive reimbursement for his campaign and official uses.<sup>87</sup>

The following chart shows the reimbursements Palazzo has made to the Committee since the Committee started leasing vehicles:

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<sup>82</sup> *Id.* at 166. The Committee subsequently reaffirmed that no mileage logs exist. *See* May 13 Harper Email.

<sup>83</sup> *See* RTB Resp. at 10, 166; *see also* May 13 Harper Email.

<sup>84</sup> RTB Resp. at 193 (emphasis added).

<sup>85</sup> *See id.* at 195 (May 2, 2021 email from Steven Palazzo to Pat Wilson and Stephanie McCollum). In the email, Palazzo notes that he will deposit a check to reimburse the Committee for the remaining half of the lease, insurance, and tag fees associated with the Tahoe.

<sup>86</sup> The MRA is funds given to representatives for use in their official officeholder duties and is overseen by the OCE. *See* OCE Referral at 33-38.

<sup>87</sup> RTB Response at 10; *see also* May 13 Harper Email. It is not apparent from the Committee's disclosure reports that Palazzo followed through on his statements. The only disbursements related to vehicle use that the Committee has made to Palazzo since January 2021 are two mileage reimbursements dated Oct. 13, 2021 (\$572.10) and May 13, 2022 (\$506.91). *See* *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Green&recipient\\_name=Palazzo&recipient\\_name=Steven+Palazzo](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Green&recipient_name=Palazzo&recipient_name=Steven+Palazzo) (last visited Nov. 20, 2023) (reflecting all Committee disbursements for "Palazzo," "Steven Palazzo," and "Green").

Reimbursements by Palazzo to the Committee			
Date	Amount	Reimbursement Rate	Time Period and Purpose (if Disclosed or Available)
5/4/21	\$4,997.51	50%	1/21-6/21; insurance; tags <sup>88</sup>
3/3/21	\$3,920.94	50%	1/21-6/21; insurance
9/11/20	\$1,223.35	20%	<i>Not disclosed</i>
6/23/20	\$2,230.66	20%	<i>Not disclosed</i>
2/26/20	\$1,770.87	<i>Not disclosed</i>	Includes \$1,101.67 payment to Delta World Tire on 12/14/18 <sup>89</sup>
2/14/20 <sup>90</sup>	\$2,485.88	<i>Not disclosed</i>	<i>Not disclosed</i>
12/19/19	\$2,742.09	20%	7/1/18-11/11/19
7/2/18	\$3,831.16	20%	1/17/17-6/30/18
<b>Total:</b>	<b>\$23,202.46</b>		

1 The Committee's disclosure reports do not reflect any other individual reimbursing the  
 2 Committee for use of the vehicles.

### 3 C. Miscellaneous Expenses

4 The Committee reported various other reimbursements by Palazzo, including a wall bed,  
 5 lodging, and CPA fees, most of which were made after the complaints in this and the OCE  
 6 matter were filed. The wall bed was originally purchased by the Committee on May 4, 2016, for  
 7 \$5,086 and reimbursed by Palazzo nearly four years later on February 4, 2020.<sup>91</sup> He reimbursed

<sup>88</sup> The May 4, 2021 and March 3, 2021 payments, apparently covering January-June 2021, appear to reflect Palazzo's eventual decision in 2021 to start paying 100% of the vehicle costs starting January 2021. *See* RTB Resp. at 195 (May 2, 2021 email from Steven Palazzo to Pat Wilson and Stephanie McCollum). That was a change from a March 16, 2021 email where Palazzo suggested paying 50% from January through June, and an April 13, 2021 email, stating he would pay 100% starting in July 2021. *See* RTB Resp. at 194 (March 16, 2021 email from Steven Palazzo to Pat Wilson and Stephanie McCollum); *id.* at 193 (April 13, 2021 email from Steven Palazzo to Pat Wilson and Paul Breazeale).

<sup>89</sup> In a February 15, 2020 email to Breazeale, Palazzo wrote that after reviewing "the 2018 AMEX statements I've determined the following to be personal in nature. Please tell me what I need to do." *See* OCE Exs., Pt. 1 of 10, p. 2 (Ex. 1: Feb. 15, 2020 email from Steven Palazzo to Paul Breazeale). The list includes the Delta World Tire expense but also restaurants and hotels. It appears the Committee combined all the expenses, which add up to \$1,770.87, and disclosed them as vehicle reimbursements.

<sup>90</sup> The Complaint in this matter was filed January 17, 2020. On February 14, 2020, Palazzo's Chief of Staff, Hunter Lipscomb, sent an email to then-Committee treasurer and accountant Breazeale suggesting ethics training and more internal controls. *See* OCE Exs., Pt. 1 of 10, p. 5-6 (Ex. 3: February 14, 2020 email from Lipscomb to Breazeale recommending Committee "self-report" to House Ethics Committee and schedule FEC training).

<sup>91</sup> *See* Palazzo for Congress, 2020 12-Day Pre-Primary Report, Sched. A at 14 (Feb. 27, 2020), <https://docquery.fec.gov/cgi-bin/fecimg/?202002279203326044>.

the Committee \$1,612.14 on June 10, 2020, for “CPA license fees, dues and [Continuing Professional Education (“CPE”)] costs.”<sup>92</sup> From 2017 to 2019, the Committee made four payments for CPE totaling \$826.17, but it is not clear if Palazzo’s June 10, 2020 reimbursement accounted for those payments. On June 16, 2020, he reimbursed the Committee \$616.86 for lodging costs<sup>93</sup> and reimbursed \$1,902.24 on October 18, 2021, for travel expenses, but provided no other information for either of these reimbursements.<sup>94</sup> In total, Palazzo reimbursed the Committee for approximately \$9,459.19 of personal expenses unrelated to OGC’s other recommendations.<sup>95</sup>

#### **D. The Committee’s Payments to Two Accounting Firms**

Commission disclosure reports show that the Committee paid two accounting firms for many years, one of which was Palazzo & Co., a firm founded by Palazzo and owned by his ex-wife.<sup>96</sup> In response to the Complaint, Respondents said Palazzo had no ownership interest in Palazzo & Co.,<sup>97</sup> and that the Committee paid Palazzo & Co. for “general ledger and bill paying” and Breazeale, Saunders & O’Neil, Ltd. (“BSO”) for FEC reporting and consulting.<sup>98</sup> In

<sup>92</sup> See Palazzo for Congress, Amended 2020 July Quarterly Report at 18 (July 12, 2021), <https://docquery.fec.gov/cgi-bin/forms/C00477323/1524315/sa/15>.

<sup>93</sup> See *id.*

<sup>94</sup> See Palazzo for Congress, 2021 Year-End Report, Sched. A at 41 (Jan. 31, 2022), <https://docquery.fec.gov/cgi-bin/fecimg/?202201319486081606>; see also *supra* note 89 (indicating that the Committee’s reported February 15, 2020 vehicle reimbursement included non-vehicle reimbursements as well).

<sup>95</sup> See *FEC Receipts: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/receipts/?data\\_type=processed&committee\\_id=C00477323&contributor\\_name=steven+palazzo](https://www.fec.gov/data/receipts/?data_type=processed&committee_id=C00477323&contributor_name=steven+palazzo) (last visited Nov. 28, 2023) (reflecting all Committee receipts from “Steven Palazzo”).

<sup>96</sup> As stated in the First General Counsel’s Report, Palazzo and his wife divorced in 2016, and a former spouse is not within the Commission’s definition of “family” for a personal use analysis. See First Gen. Counsel’s Rpt. (“First GCR”) at 15-16. Because the last payment to the Palazzo firm while they were still married was made on March 22, 2016, even with the tolling provided by Respondents, that potential violation has expired. Nevertheless, as explained in this Report, OGC does not believe that a personal use violation occurred regarding the accounting firm payments and that work performed by the Palazzo & Co. firm supported the payments to it.

<sup>97</sup> Resp. at 3.

<sup>98</sup> *Id.*

1 response to the RTB finding, Respondents explained that Palazzo & Co. provided almost daily  
 2 services to the Committee, including “general ledger, bill paying, banking, correspondence,  
 3 financial management, data management and other accounting services.”<sup>99</sup> Respondents  
 4 described BSO’s work as preparing and filing FEC reports and assuring “that both the campaign  
 5 and [Palazzo’s Leadership PAC] complied with all applicable rules.”<sup>100</sup> Respondents state that  
 6 the amounts paid to the two accounting firms were reasonable and necessary and that the firms  
 7 did not perform duplicative work.<sup>101</sup> Respondents state that Paul Breazeale is an experienced  
 8 political committee treasurer, and that the \$1,000 per month paid to Palazzo & Co. reflected only  
 9 10 hours of accounting work per month.<sup>102</sup> Respondents note that payments to Palazzo & Co.  
 10 stopped after staff accountant David Domonkos, who primarily handled the Committee’s work  
 11 most recently, left.<sup>103</sup>

12 The documentation Respondents provided concerning the payments to two accounting  
 13 firms was not sufficient to determine whether payments to Palazzo & Co. reflected fair market  
 14 value for the work provided. Accordingly, OGC interviewed Domonkos.█ Respondents later  
 15 provided a memorandum Domonkos had written before he resigned (and before the Complaint  
 16 was filed) describing his duties at Palazzo & Co.<sup>105</sup> Based on his description of his job duties  
 17 and through the interview, it became clear that Domonkos performed the bulk of accounting

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<sup>99</sup> RTB Resp. at 10.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.* at 11.

<sup>102</sup> *Id.* at 12.

<sup>103</sup> *Id.* at 11.

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<sup>105</sup> See Supp. RTB Resp. at 9-11 (Aug. 9, 2021) (Memorandum from David Domonkos).

1 duties between the two firms and performed many of the tasks that a Committee treasurer would  
 2 normally be expected to perform.

3 Domonkos's three-page memo to Palazzo's Chief of Staff is titled "Scope of Work for  
 4 Campaign Finance Management" and the broad outline headers are: Manage all finance aspects  
 5 of Palazzo for Congress and Patriot PAC (Palazzo's Leadership PAC), Provide support to  
 6 Breazeale, Generate monthly [financial] report to the Committee, Accounts Payable, Accounts  
 7 Receivable (including references to FEC contribution rules), Contributor Reporting, and  
 8 miscellaneous.<sup>106</sup> In the interview, he stated that about half his workload at Palazzo & Co. was  
 9 work for the Committee.<sup>107</sup>

#### 10 **IV. LEGAL ANALYSIS**

##### 11 **A. Applicable Law**

12 In general, the Act affords federal candidates and their campaign committees wide  
 13 discretion in the disposition of their campaign funds and provides that contributions accepted by  
 14 a candidate may be used by the candidate "for otherwise authorized expenditures in connection  
 15 with the campaign for Federal office of the candidate" and "for ordinary and necessary expenses  
 16 incurred in connection with duties of the individual as a holder of Federal office."<sup>108</sup>  
 17 Nonetheless, campaign funds cannot be converted to "personal use" by "any person."<sup>109</sup>  
 18 Conversion to personal use occurs when funds in a campaign account are used "to fulfill any

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<sup>106</sup> *Id.*

<sup>107</sup> Domonkos Interview.

<sup>108</sup> 52 U.S.C. § 30114(a)(1); *see* Expenditures; Reports by Political Committees; Personal Use of Campaign Funds, 60 Fed. Reg. 7862, 7866-67 (Feb. 9, 1995) ("Personal Use E&J") (explaining that the personal use prohibition is "not so broad as to limit legitimate campaign related or officeholder related activity," and that "candidates have wide discretion over the use of campaign funds").

<sup>109</sup> 52 U.S.C. § 30114(b)(1).

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."<sup>110</sup>

The Act and Commission regulations set forth certain uses of campaign funds that constitute conversion to personal use *per se*, including a home mortgage, rent, utility payments, and non-campaign-related automobile expenses.<sup>111</sup> For all other disbursements, the regulation provides that the Commission shall determine on a case-by-case basis whether a given disbursement is personal use by applying the "irrespective test" formulated in the statute.<sup>112</sup>

## **B. The River House**

Regarding payments for candidate-owned real estate, the Commission's regulations at 11 C.F.R. § 113.1(g)(1)(i) specifically describe uses of campaign funds for candidate-owned property that could constitute personal use:

### (E) Mortgage, rent or utility payments—

(1) For any part of any personal residence of the candidate or a member of the candidate's family; or

(2) For real or personal property that is owned by the candidate or a member of the candidate's family and used for campaign purposes, to the extent the payments exceed the *fair market value of the property usage*.<sup>113</sup>

In its 1995 rulemaking, the Commission justified retaining section (E)(2) to allow a committee to pay fair market rent to a candidate for candidate-owned property because "[t]hese arrangements more closely resemble arm's[-]length transactions in that the property in question is available on the open market. . . . Consequently, so long as the campaign pays fair market

<sup>110</sup> *Id.* § 30114(b)(2); 11 C.F.R. § 113.1(g).

<sup>111</sup> 52 U.S.C. § 30114(b)(2)(A)-(I); 11 C.F.R. § 113.1(g).

<sup>112</sup> 11 C.F.R. § 113.1(g)(1)(ii).

<sup>113</sup> *See id.* § 113.1(g)(1)(i)(E) (emphasis added).

value, these payments will not be considered personal use.”<sup>114</sup> The Commission has previously determined that where a political committee receives goods or services from a company partly owned by a candidate, it must avoid paying more or less than the fair market value to avoid converting the funds to personal use or receiving an in-kind contribution, respectively.<sup>115</sup>

1. The Committee Did Not Pay Fair Market Value for the River House and Spent Thousands of Dollars Toward Its Repair, Costs That Existed Irrespective of Palazzo's Candidacy

The investigation produced evidence establishing that the Committee converted campaign funds to personal use for payments to rent Palazzo's River House and for payments for maintenance, repairs, and utilities at the River House but was inconclusive as to whether Kyle Palazzo resided at the home. Specifically, the evidence indicates that the River House presented a financial strain on Palazzo, who sought to sell or lease the property shortly after purchasing it; that the property required repairs and maintenance prior to sale; and that Committee's funds defrayed some of those costs. Although the investigation did reveal limited use of the River House for campaign activity, the property appears to have been used for little more than storage following the election.

Palazzo expressed his financial predicament concerning the River House and his desire to find a way to repair the house in order to sell it. Palazzo wrote in an email, “I just want to sell it or find some contractors to fix it without costing an arm and a leg and sell it for a little more. I can't afford to take a huge loss.”<sup>116</sup> As OCE concluded, Palazzo's “personal expenses were part

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<sup>114</sup> Personal Use E&J at 7865.

<sup>115</sup> Advisory Opinion 1995-08 at 3 (Bart T. Stupak, *et al.*) (“You have suggested that the rental amount charged may be below the usual and normal charge for the rental of the building. Although this avoids the payment of excessive rent and, hence, personal use of campaign funds, the undercharging for rent would constitute something of value to the committee and would thus be an in-kind contribution from your spouse and you.”).

<sup>116</sup> OCE Exs., Pt. 7 of 10, p. 138-39 (Ex. 42: January 2, 2018 email from Steven Palazzo to Cameron Bell).



of the discussion” of the lease.<sup>117</sup> In an email to the then-treasurer regarding a lease, Palazzo noted that the “[m]ortgage plus insurance and tax are right at \$3,000,”<sup>118</sup> suggesting that Palazzo’s personal financial obligations, rather than an assessment of “the fair market value of the property usage,”<sup>119</sup> informed the calculation of the Committee’s rent payments. Respondents, however, contend that \$3,000 also represented the fair market value of rent of River House as a campaign office, and provided emails from real estate agent Cameron Bell.<sup>120</sup> As Bell himself noted, however, coming up with a rental value was difficult with no useful comparable properties available and the residential versus commercial nature of the house.<sup>121</sup>

The Committee also appears to have paid for upgrades and repairs to the River House property. On March 13, 2018, Palazzo updated his real estate agent on Committee-funded efforts to improve the property, stating: “This week lawn care starts on river house[.] Pressure washing walls[.] Have you gotten any calls?”<sup>122</sup> The Committee subsequently reported a disbursement on March 26, 2018, of \$2,925 for pressure washing, flower beds, and lawn care at the River House.<sup>123</sup>

Although the investigation established that some limited campaign activities occurred at the River House until the 2018 general election, the level of campaign office activity does not

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<sup>117</sup> OCE Report ¶ 50.

<sup>118</sup> OCE Exs., Pt. 7 of 10, p. 144-45 (Ex. 44: January 29, 2018 email from Steven Palazzo to Paul Breazeale).

<sup>119</sup> See 11 C.F.R. § 113.1(g)(1)(i)(E)(2).

<sup>120</sup> See OCE Exs., Pt. 7 of 10, pp. 138-39 (Ex. 42: January 2, 2018 email from Palazzo to Bell).

<sup>121</sup> *Id.*; see also *supra* note 34 and accompanying text (noting that Bell “guess[ed]” that the house itself could rent for \$2,500 to \$3,000 a month and the separate apartment on the property could rent for \$500 to \$600 per month, depending on improvements).

<sup>122</sup> OCE Exs., Pt. 8 of 10, p. 90 (Ex. 63: March 13, 2018 email from Palazzo to Bell).

<sup>123</sup> See *supra* note 18 and accompanying text (discussing the invoice from Cleanology Pro Cleaning Services, LLC for “Riverhouse Pressure Wash, Riverhouse Flowerbeds, Riverhouse lawn” totaling \$2,925); Palazzo for Congress, Amended 2018 April Quarterly Report at 57 (Sept. 24, 2018), <https://docquery.fec.gov/pdf/550/201809249124238550/201809249124238550.pdf>.

1 seem to merit the almost 4,000 square feet of space the Committee leased. The Committee  
2 provided evidence that documented use of the River House for staff meetings, sign and campaign  
3 swag storage, and general office activities. Further, the Respondents contended that the rental of  
4 the River House served to create a “visible campaign presence,” but the investigation did not  
5 establish that the River House “was held out as a public[-]facing campaign office.”<sup>124</sup>

6 The investigation also established that, aside from use as a storage facility, the  
7 Committee held virtually no activities at the River House following the 2018 general election  
8 until the house was sold and the lease concluded in August 2019. The emails written by Kyle  
9 Palazzo in the spring of 2019, whether or not they were written at and sent from the River House,  
10 do not indicate an active, ongoing campaign and do not describe events or campaign activity at  
11 the River House.<sup>125</sup> Thus, the Committee in effect paid \$3,000 each of those months to use the  
12 River House as a storage facility for campaign signs.<sup>126</sup> The fact that the Committee stopped  
13 paying its regular storage vendor while the Committee was leasing the River House and then  
14 resumed paying for storage after the lease ended supports this conclusion.

15 The investigation similarly established that the home improvements were principally  
16 undertaken to improve the River House property for sale. For example, in March 2018, a  
17 plumbing company repaired a hot water heater and bathroom faucets, which could potentially  
18 provide a benefit to campaign staff, but it also repaired, and the Committee paid for, replacement  
19 shower and bathtub faucet extensions and handles.<sup>127</sup> And in an email to his real estate agent

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<sup>124</sup> OCE Report ¶ 63.

<sup>125</sup> *See id.*; *see also* Kyle Palazzo Dep. at 27:14-22.

<sup>126</sup> RTB Resp. at 8; *see* Kyle Palazzo Dep. at 23:3-7.

<sup>127</sup> RTB Resp. at 94 (attaching Patterson Plumbing bill to the Committee for \$695.63).

1 dated March 13, 2018, Palazzo specifically referenced landscaping, which the Committee paid  
2 for, as an improvement to increase the River House's likelihood of sale.<sup>128</sup>

3 Respondents also submitted copies of checks showing Palazzo also paid for repairs at the  
4 River House through Green Acres, his LLC,<sup>129</sup> and argued that these payments demonstrate that  
5 campaign expenses were paid by the Committee and personal expenses were paid by Palazzo  
6 personally.<sup>130</sup> Palazzo's personal payments for some repairs and maintenance on the River  
7 House do not negate the fact the Committee also paid for repairs and maintenance services, many  
8 of which had at least some non-campaign, personal purpose or were made in 2019, when the  
9 residence was being used for storage and little else. Palazzo's aim to sell the River House, his  
10 noted desire to avoid losing more money on it, the Committee's choice not to secure functional  
11 office or storage space but to instead rent and repair a property owned by Palazzo, and the fact  
12 that Palazzo highlighted Committee-funded repairs to real estate agents as increasing the River  
13 House's marketability, indicate that personal and campaign expenses relating to the River House  
14 were not fully segregated.

15 In sum, the investigation determined that the Committee conducted limited campaign  
16 activity at the River House from February 2018 to November 2018; conducted almost no  
17 campaign activity there in 2019, beyond utilizing the space for storage; and made numerous  
18 payments for utilities, repairs, and maintenance that were unrelated to the campaign. Thus, the  
19 portion of the Committee's payments for use of the River House in 2019 that were in excess of  
20 the fair market value of the property's usage as a storage space and the repairs which were

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<sup>128</sup> OCE Exs., Pt. 8 of 10, p. 90 (Ex. 63: March 13, 2018 email from Palazzo to Bell).

<sup>129</sup> RTB Resp. at 142-58 (showing Green Acres bank statements and cancelled checks).

<sup>130</sup> RTB Resp. at 9.

unrelated to the Committee's use of the property constituted personal use under § 113.1(g)(1)(i). Accordingly, Respondents converted campaign funds to personal use in violation of 52 U.S.C. § 30114(b).

2. It Is Unclear Whether Kyle Palazzo Used the River House as His Residence During the Committee's Lease

The investigation was inconclusive as to whether Kyle Palazzo used the River House as his residence, and OGC does not recommend taking further action concerning this aspect of the use of the River House. The Committee's own disclosure reports identified the River House as Kyle Palazzo's address while the Committee paid rent for the space,<sup>131</sup> and Kyle Palazzo stated that his driver's license still lists the River House address;<sup>132</sup> both facts could suggest that the River House was Kyle Palazzo's residence. Conversely, the fact that he continued to use the River House address on his driver's license after the property had been sold could also indicate that his use of the address is untethered to whether he actually resided there and is more representative of his long-standing familial connection to the River House.

Testimony concerning whether Kyle Palazzo resided at the River House was similarly conflicting. One witness whom OCE deposed said Kyle Palazzo spent many nights there, and she made similar statements in an interview with OGC. However, Kyle Palazzo denied living in the River House in his sworn deposition and claimed to have been living with his girlfriend at the time.<sup>133</sup> He further testified that the River House no longer contained home furnishings and was

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<sup>131</sup> See *FEC Disbursements: Filtered Results*, FEC.GOV, [https://www.fec.gov/data/disbursements/?data\\_type=processed&committee\\_id=C00477323&recipient\\_name=Kyle+Palazzo&disbursement\\_description=contract&disbursement\\_description=net+payroll&disbursement\\_description=salary](https://www.fec.gov/data/disbursements/?data_type=processed&committee_id=C00477323&recipient_name=Kyle+Palazzo&disbursement_description=contract&disbursement_description=net+payroll&disbursement_description=salary) (last visited Nov. 20, 2023) (reflecting Committee Disbursements to Kyle Palazzo for "net payroll," "salary," and "contract").

<sup>132</sup> See Kyle Palazzo Dep. at 9:10-12.

<sup>133</sup> *Id.* at 13:8-16, 14:8-14.

1 not a suitable place to live.<sup>134</sup> We were unable to reach Kyle Palazzo's former girlfriend to  
 2 confirm whether he lived with her during the time in question. Accordingly, we believe the  
 3 current factual record does not support further Commission action on this allegation and we do  
 4 not think that it would be a prudent use of Commission resources to further investigate this  
 5 aspect of the matter.

### 6 C. Vehicle Expenses

7 The Act and Commission's regulations specifically identify non-campaign related  
 8 automobile vehicles as a *per se* personal use violation.<sup>135</sup> If a committee uses campaign funds to  
 9 pay expenses associated with a vehicle that is used for both personal activities beyond a *de*  
 10 *minimis* amount and campaign or officeholder related activities, "the portion of the vehicle  
 11 expenses associated with the personal activities is personal use," unless the campaign account is  
 12 reimbursed within 30 days for the expenses associated with the personal activities.<sup>136</sup> For uses of  
 13 campaign funds that are both personal use and campaign or officeholder use, "a  
 14 contemporaneous log or other record must be kept to document the dates and expenses related to  
 15 the personal use" and this log or record must be updated with each personal use.<sup>137</sup>

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<sup>134</sup> *Id.* at 24:10-25:1

<sup>135</sup> 52 U.S.C. § 30114(b)(2)(C); 11 C.F.R. § 113.1(g)(1)(ii)(D).

<sup>136</sup> 11 C.F.R. § 113.1(g)(1)(ii)(D).

<sup>137</sup> 11 C.F.R. § 113.1(g)(8); *see also* F&LA at 4, MUR 7763 (Casper for Colorado, *et al.*) (noting that the committee appeared not to have kept any records of vehicle usage to account for the apportionment between personal and campaign-related activities); Second Gen. Counsel's Rpt. ("Second GCR") at 10-11, MUR 6498 (Lynch for Congress, *et al.*) (recommending conciliation regarding personal use where candidate made expenditures for gasoline, tolls, and parking for a vehicle driven for mixed purposes but did not maintain records of the use); Cert. ¶ 2 (Aug. 27, 2014), MUR 6498 (approving conciliation).

In MUR 6585, a candidate and his wife used a committee-owned vehicle for campaign, official, and personal purposes, but because the Commission could not determine whether the personal use was *de minimis* and the respondents failed to make reimbursements pursuant to the regulations, the Commission found reason to believe they and the committee violated the Act. F&LA at 7, MUR 6585 (Edolphus Townes, *et al.*). The Commission rejected the respondents' argument that they in effect paid their share of the vehicle's cost because they personally paid for gas and other maintenance charges. *Id.* at 6. The respondents entered into a conciliation agreement that

Commission regulations also provide that “whenever an authorized committee itemizes a disbursement that is partially or entirely a personal use for which reimbursement is required . . . it shall provide a brief explanation of the activity for which reimbursement is required.”<sup>138</sup>

The investigation confirmed that Palazzo used Committee vehicles for non-campaign-related purposes and revealed the extent of that personal use. For 18 months, from December 2016 through June 2018, Palazzo used a campaign vehicle for non-campaign purposes before Palazzo made any reimbursement to the Committee. Palazzo acknowledged doing so in a June 2018 email to the former Committee treasurer, where Palazzo generated a reimbursement rate, seemingly out of thin air: “I believe 20% or less is personal.”<sup>139</sup> Even so, Palazzo’s efforts to reimburse the Committee appear to be sporadic and untimely.<sup>140</sup> Palazzo would later revise his estimate of non-campaign use to 50%,<sup>141</sup> before finally deciding to pay 100% of the costs associated with the Committee’s car in 2021 and submit reimbursement requests to the

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noted they “did not keep a mileage log or other record to document the use of their committee-owned vehicle for campaign and non-campaign activities, as required by 11 C.F.R. § 113.1(g)(8).” Conciliation Agreement ¶ IV.9, MUR 6585.

Similarly in Advisory Opinion 2001-03 (Gregory W. Meeks, *et al.*), the Commission stated that the candidate’s proposal to use a campaign-owned vehicle for personal use would be acceptable when the “amount of the reimbursement would be based on travel records that document the mileage for purposes other than political or campaign related trips.” Advisory Opinion 2001-03 at 2. The candidate also proposed to reimburse the Committee based on the IRS standard mileage rate and provided estimates indicating that in total, the official and campaign use would be about 95%. *Id.* at 1-2. The Commission stated that given an estimated 95% campaign/official officeholder use, 5% would be considered *de minimis* and not require reimbursement, but that the reimbursement rate proposed by the candidate would be permissible. *Id.* at 3. The Commission noted that its opinion “does not address situations where a vehicle is purchased with campaign funds and is used beyond a *de minimis* level for personal purposes.” *Id.*

<sup>138</sup> 11 C.F.R. § 104.3(b)(4)(B).

<sup>139</sup> RTB Resp. at 180 (June 2, 2018 email from Steven Palazzo to Paul Breazeale).

<sup>140</sup> *Id.* at 188 (June 19, 2020 email from Steven Palazzo to Pat Wilson stating “I pay 20% of the Tahoe lease expenses. I’m not sure where we are on that right now.”); *see also id.* at 195 (indicating that Palazzo did not pay expenses associated with the lease in January 2021 until May).

<sup>141</sup> *Id.* at 10, 192; *see also* May 13 Harper Email.

Committee.<sup>142</sup> During these time periods, the Committee paid \$62,622.25 to lease the vehicles, and paid \$23,198.23 for other vehicle-related expenses.<sup>143</sup> The Committee maintained no logs, and thus Palazzo's reimbursements appear to be speculative without an apparent factual basis.<sup>144</sup> Reimbursements were likely made more than 30 days after the corresponding activity, and the Committee's disclosures of disbursements for vehicle expenses did not note that reimbursement would need to be made for all or a portion of the expenditure.<sup>145</sup>

Accordingly, Palazzo and the Committee violated 52 U.S.C. § 30114(b) by converting campaign funds to personal use in connection with vehicle payments.

#### **D. Miscellaneous Expenses**

The Committee reported various other personal-use reimbursements by Palazzo, including for a wall bed, lodging, and CPA fees, most of which were made after the complaints in this and the OCE matter were filed. The wall bed was originally purchased by the Committee on May 4, 2016, for \$5,086 and Palazzo reimbursed the Committee for the purchase on February 4, 2020.<sup>146</sup> He reimbursed the Committee \$1,612.14 on June 10, 2020, for "CPA license fees, dues and CPE costs."<sup>147</sup> From 2017 to 2019, the Committee made four payments for CPE totaling \$826.17, but it is not clear if Palazzo's June 10, 2020 reimbursement accounted

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<sup>142</sup> RTB Resp. at 195.

<sup>143</sup> *See supra* notes 74-75 and accompanying text.

<sup>144</sup> *See* May 13 Harper Email.

<sup>145</sup> Although the Committee may have violated the reporting provisions of the Act by failing to accurately report disbursements, we do not recommend that the Commission find reason to believe that the Committee violated 52 U.S.C. § 30104(b) given the totality of the circumstances in this matter.

<sup>146</sup> *See* Palazzo for Congress, 2020 12-Day Pre-Primary Report, Sched. A at 14 (Feb. 27, 2020), <https://docquery.fec.gov/cgi-bin/fecimg/?202002279203326044>. Even with 254 days of tolling, the five-year statute of limitations has expired as to the May 4, 2016 purchase of the wall bed; however, the statute of limitations has not run on Palazzo's February 4, 2020 reimbursement.

<sup>147</sup> *See* Palazzo for Congress, Amended 2020 July Quarterly Report at 18 (July 12, 2021), <https://docquery.fec.gov/cgi-bin/forms/C00477323/1524315/sa/15>.

for those payments. On June 16, 2020, he reimbursed the Committee \$616.86 for lodging costs<sup>148</sup> and reimbursed \$1,902.24 on October 18, 2021, for travel expenses, but provided no other information for either of those reimbursements.<sup>149</sup>

As the Committee impermissibly paid for these items and activities that were not campaign-related and the attendant obligations existed irrespective of Palazzo's candidacy,<sup>150</sup> Palazzo and the Committee violated the Act by converting campaign funds to personal use.

#### **E. Payments to Palazzo & Co.**

The investigation uncovered sufficient evidence that payments within the statute of limitations to Palazzo & Co. for accounting services appear to reflect fair market value and did not constitute personal use. Based on the interview of Palazzo & Co. accountant David Domonkos, there is no basis to find that payments to that firm were not for actual work performed.<sup>151</sup> We recommend that the Commission take no further action concerning this aspect of the investigation.

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<sup>148</sup> *See id.*

<sup>149</sup> *See* Palazzo for Congress, 2021 Year-End Report, Sched. A at 41 (Jan. 31, 2022), <https://docquery.fec.gov/cgi-bin/fecimg/?202201319486081606>.

<sup>150</sup> *See* F&LA at 10-11, MURs 7058, 7228, 7233 (Duncan D. Hunter for Congress).

<sup>151</sup> *See supra* notes 104-107 and accompanying text.



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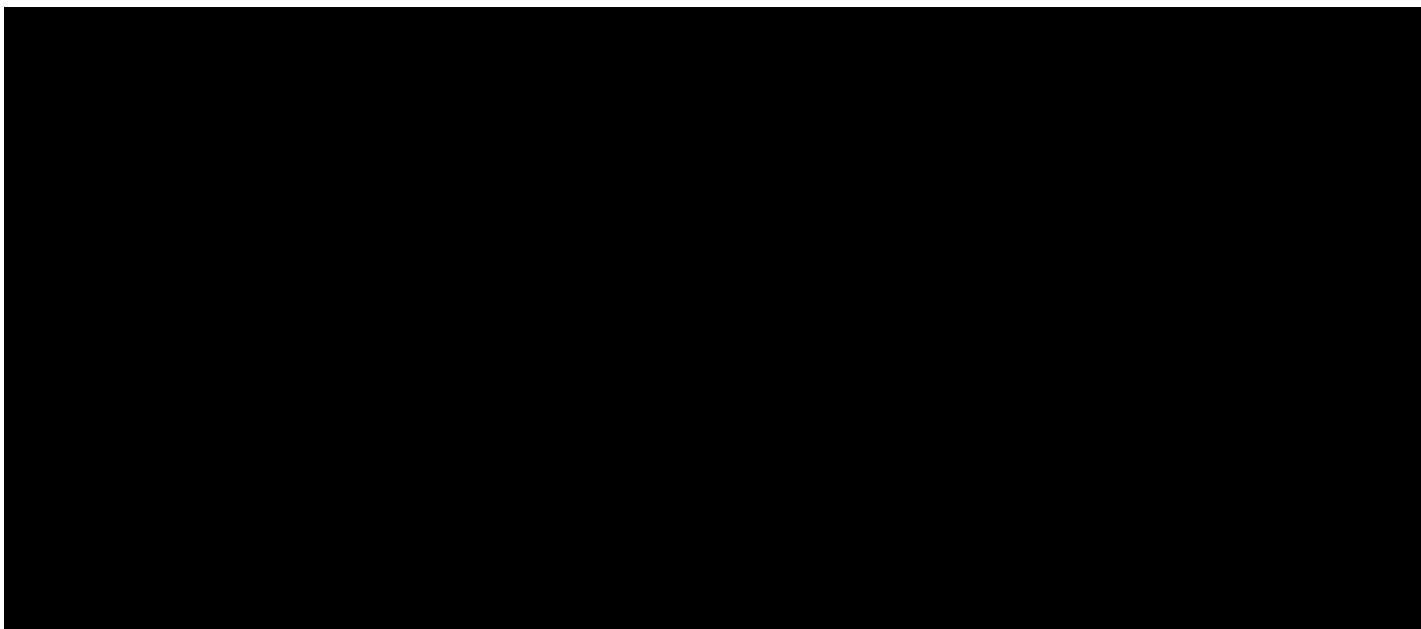
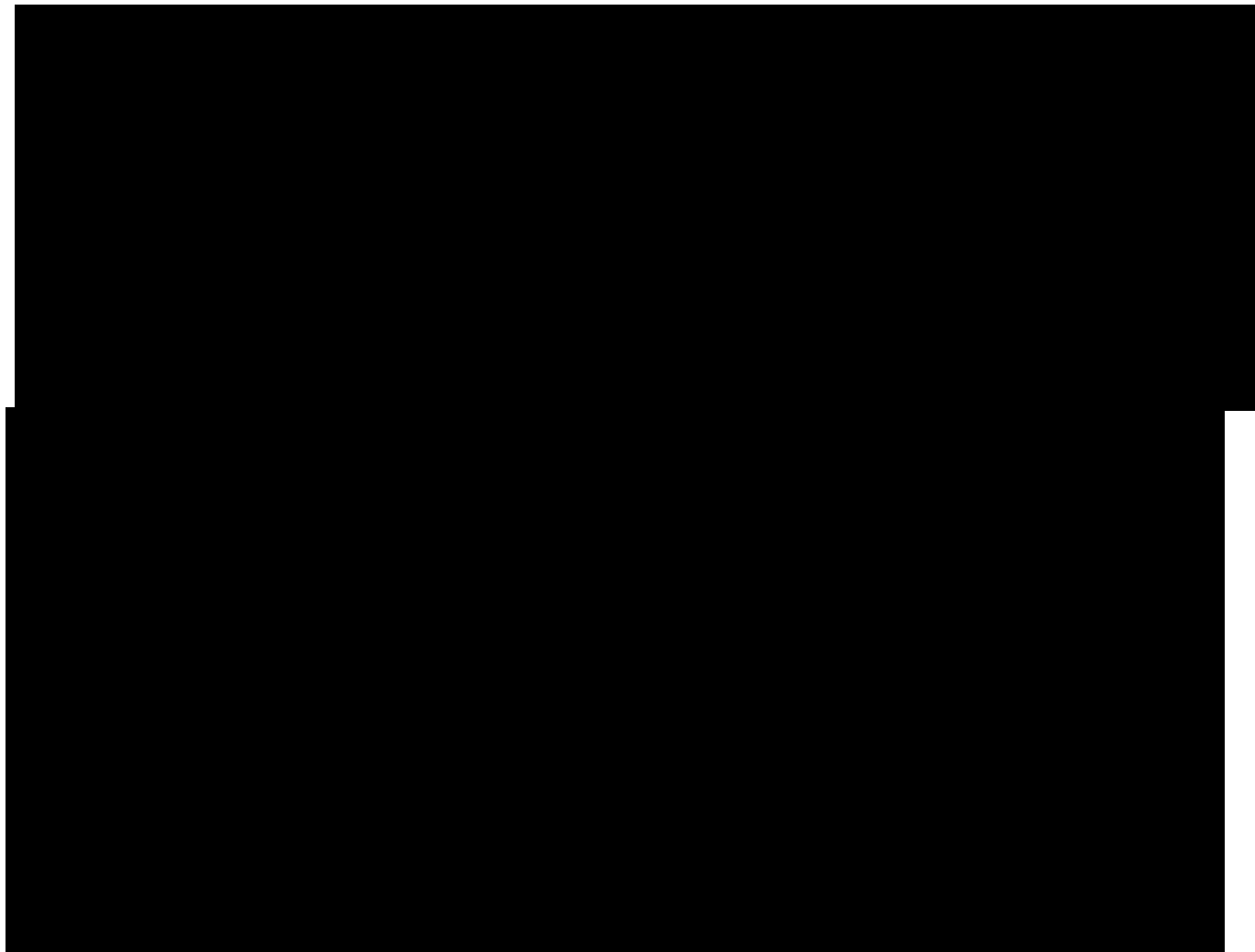
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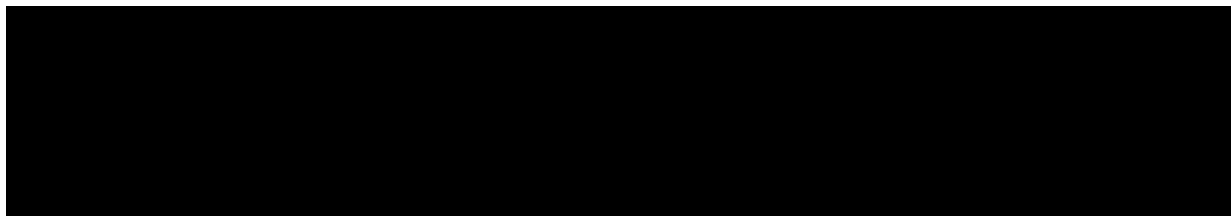
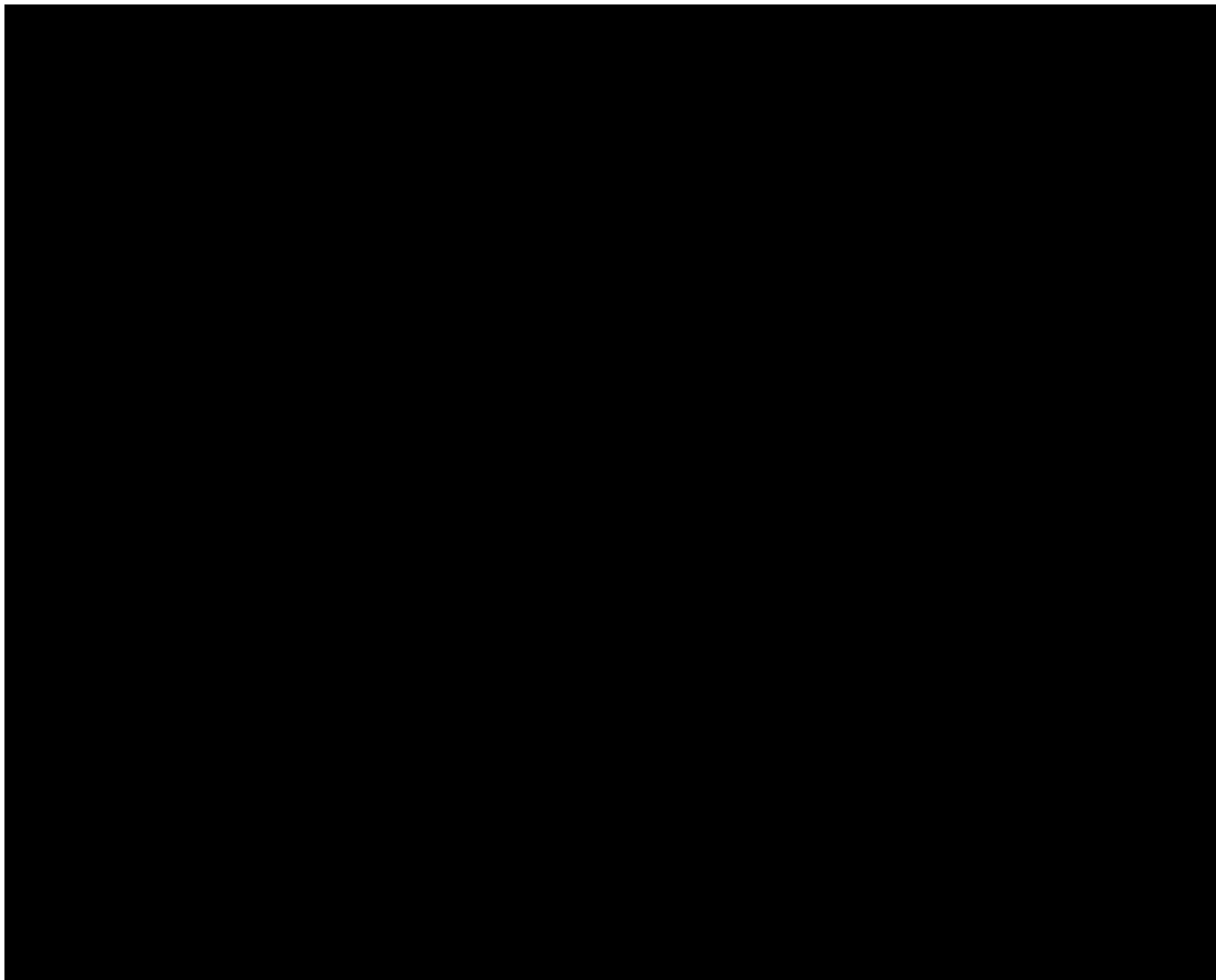
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**VI. RECOMMENDATIONS**

- 6           1.     Authorize pre-probable cause conciliation with Steven Palazzo for Congress and  
7                 Paul Kilgore in his official capacity as treasurer and Steven Palazzo;  
8           2.     Approve the attached conciliation agreement; and

3. Approve the appropriate letters.

Lisa J. Stevenson  
Acting General Counsel

Charles Kitcher  
Associate General Counsel for Enforcement

11/28/2023

Date

*Adrienne C. Baranowicz*  
Adrienne C. Baranowicz  
Deputy Associate General Counsel for  
Enforcement

*A.B.R.*  
Anne B. Robinson  
Assistant General Counsel

Previously Assigned:  
Elena Paoli

