BEFORE THE FEDERAL ELECTION COMMISSION

In the Matters of

MMWP12 LLC, et al. ) MUR 6969
Children of Israel, LLC, et al. ) MURs 7031 & 7034

STATEMENT OF REASONS OF
CHAIR CAROLINE C. HUNTER AND
COMMISSIONER MATTHEW S. PETERSEN

Prior to Citizens United\(^1\) and the legal developments stemming from that decision, the Federal Election Campaign Act of 1971, as amended (the “Act”), prohibited all federal political committees from accepting contributions from individuals in excess of certain amounts. After Citizens United, however, committees known as Super PACs have been permitted to accept contributions in unlimited amounts from individuals (as well as from corporations and unions), so long as they do not make contributions to candidates and parties.\(^2\)

The Commission previously considered the then-novel question of whether closely held corporations and limited liability companies (“LLCs”) taxed as corporations violated the Act’s ban on straw donor contributions by making contributions to Super PACs.\(^3\) As in those prior matters, respondents here include LLCs that are alleged to have made, and Super PACs that are alleged to have accepted, straw donor contributions in violation of the Act.\(^4\) But unlike the LLCs in those prior matters, the LLCs identified in these complaints did not opt to be taxed like

\(^1\) Citizens United v. FEC, 558 U.S. 310 (2010).

\(^2\) See, e.g., Advisory Opinion 2010-11 (Commonsense Ten) (concluding that certain political committees that do not make contributions to candidates may accept contributions in unlimited amounts from individuals, corporations, and labor organizations).

\(^3\) Statement of Reasons of Chairman Matthew S. Petersen, and Commissioners Caroline C. Hunter and Lee E. Goodman at 2, MURs 6485, 6487, 6488, 6711, and 6930 (April 1, 2016) (“2016 LLC Statement”) (concluding that, under certain circumstances, closely held corporations and LLCs taxed as corporations could violate section 30122, but otherwise dismissing under Heckler v. Chaney, 470 U.S. 821 (1985)); Statement of Reasons of Chair Caroline C. Hunter and Commissioner Matthew S. Petersen at 10-12, MURs 6968, 6995, 7014, 7017, 7019, and 7090 (July 2, 2018) (“2018 LLC Statement”) (same); see also Campaign Legal Center v. FEC, No. 1:16-cv-00752, 2018 WL 2739920, at *1 and *8 (D.D.C. June 7, 2018) (concluding that 2016 dismissals reflected “a rational basis for the Commission’s exercise of prosecutorial discretion”).

\(^4\) See Complaint at 3-4, MUR 6969 (MMWP12 LLC, et al.); Complaint at 4-7, MUR 7031 (Children of Israel, LLC, et al.); Complaint at 3-4, MUR 7034 (Children of Israel, LLC, et al.).
corporations, raising the question of how these contributions should be attributed. We conclude that while the Commission’s existing attribution regulations at 11 C.F.R § 110.1(g) apply to the reporting of these contributions, several factors counsel in favor of exercising our prosecutorial discretion, including considerations of due process, fair notice, and First Amendment clarity. Accordingly, in an exercise of prosecutorial discretion, we voted against finding reason to believe that the respondents violated the Act and instead voted to close the files.

I. FACTUAL BACKGROUND

A. MUR 6969 (MMWP12 LLC, ET AL.)

MMWP12 LLC was created in Montana on June 29, 2015. Its sole member is K2M, LLC, which was organized in 2002. K2M is owned by Megan and Mark Kvamme, who each hold a 50 percent interest in K2M through a living trust. For purposes of federal taxation, MMWP12 is a disregarded entity, and K2M is a partnership.

MMWP12’s activities include managing real estate held by K2M, which owns about $43.7 million in real estate investments, either directly or through subsidiaries. One of those subsidiaries is managed by Paul Johannsen, who (through another LLC) acts as MMWP12’s real estate agent.

New Day Independent Media Committee, Inc. was formed as a section 527 organization on May 28, 2015 and registered with the Commission as a Super PAC on August 5, 2015. New Day reported making $5 million in independent expenditures in support of Governor John Kasich’s 2016 bid for the Republican presidential nomination.

Around June 29, 2015, Megan Kvamme consulted with New Day about ways to help Kasich’s presidential campaign. Following those discussions, Kvamme authorized MMWP12 to make a $500,000 contribution to New Day on June 30, 2015. Prior to the contribution, however, Kvamme informed New Day that an LLC would be the contributor and further

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7 Kvamme Aff. ¶¶ 22-23. Megan Kvamme is also MMWP12’s President, and Treasurer; Mark Kvamme is its Vice President and Secretary. MMWP12 LLC, et al. Response at 2, MUR 6969 (MMWP12 LLC, et al.) (“MMWP12 Resp.”).

8 Kvamme Aff. ¶¶ 9, 22.

9 Id. ¶¶ 14-18.

10 MMWP12 Resp. at 3; Kvamme Aff. ¶¶ 10, 14.


13 Kvamme Aff. ¶ 19.
informed New Day of her and her husband’s involvement with the LLC.14 Kvamme avers that “[f]or accounting purposes,” the contribution was “ultimately attributed” to the Kvammes as partners of K2M.15

In recommending that the Commission find reason to believe that MMWP12, K2M, the Kvammes, and New Day violated 52 U.S.C. § 30122, OGC relied on the temporal proximity of the creation of MMWP12 and the contribution to New Day, as well as a perceived lack of evidence that MMWP12 possessed sufficient independent funds or engaged in non-political activities.16

B. MURS 7031 & 7034 (CHILDREN OF ISRAEL, LLC, ET AL.)

Children of Israel, LLC is a single-member LLC formed in California on June 8, 2015.17 Its sole member is a living trust named Benjerome Trust; Saul A. Fox is Benjerome’s sole trustee and beneficiary.18 Shaofen Gao is Children of Israel’s manager and registered agent.19 On filings with the California Secretary of State, Children of Israel described its purpose as “donations,” and it has acknowledged making charitable and political donations.20

In July and November 2015, Children of Israel made contributions totaling $150,000 to Pursuing America’s Greatness, a Super PAC that made independent expenditures in support of Mike Huckabee’s 2016 presidential campaign.21 In January and March 2016, Children of Israel contributed a total of $400,000 to Stand for Truth, a Super PAC that made independent expenditures supporting Ted Cruz’s 2016 presidential campaign.22 During the course of the 2016 election cycle, the Republican National Committee also reported receiving contributions from Children of Israel that were attributed to Fox, as well as contributions from Benjerome Trust.23
OGC recommended that the Commission find reason to believe that Children of Israel, Gao, and unknown respondents violated section 30122, but that the Commission take no action as to whether the contributions from Children of Israel were improperly attributed under 11 C.F.R § 110.1(g). In reaching this conclusion, OGC relied on the purpose of Children of Israel’s creation (that is, making “donations”) and the temporal proximity between the LLC’s creation and its contributions.\textsuperscript{24}

II. **LEGAL ANALYSIS UNDER THE ACT AND COMMISSION REGULATIONS**

Under the Act, “[n]o person shall make a contribution in the name of another person or knowingly permit his name to be used to effect such a contribution, and no person shall knowingly accept a contribution made by one person in the name of another person.”\textsuperscript{25} The Act’s definition of “person” includes partnerships, corporations, and other organizations.\textsuperscript{26}

The traditional name-of-another scheme involves a corporation or other person reimbursing or advancing funds to an individual who makes contributions to federal candidates in his or her own name,\textsuperscript{27} which in turn implicates the Act’s source prohibitions and amount limitations, since contributions were made through straw donors to conceal the true contributor. Notwithstanding that contributions to Super PACs do not generally raise the same legal concerns — because Super PACs may accept contributions in unlimited amounts from individuals, corporations, and unions — we concluded in our prior LLC statements that a corporation (or an

\textsuperscript{24} FGCR at 9-14, MURs 7031/7034 (Children of Israel, LLC, \textit{et al.}). OGC further recommending take no action as to the recipient Super PACs and as to the allegation that Children of Israel should have registered and reported as a political committee. \textit{See infra} n.47.

\textsuperscript{25} 52 U.S.C. § 30122. Commission regulations provide illustrative examples of activities that would constitute a violation of the Act by making a contribution in the name of another:

\begin{itemize}
  \item \textbf{(i)} Giving money or anything of value, all or part of which was provided to the contributor by another person (the true contributor) without disclosing the source of money or the thing of value to the recipient candidate or committee at the time the contribution is made, or
  \item \textbf{(ii)} Making a contribution of money or anything of value and attributing as the source of the money or thing of value another person when in fact the contributor is the source,
\end{itemize}

11 C.F.R. § 110.4(b)(2).

\textsuperscript{26} 52 US.C. § 30101(11); 11 C.F.R. § 100.10.

\textsuperscript{27} \textit{See}, \textit{e.g.}, MUR 6143 (Galen Capital Group) (finding violation of the straw-donor ban at then-section 441f when corporation reimbursed individuals for contributions); MUR 5666 (MZM) (same); MUR 4879 (Beaulieu of America) (same); MUR 4876 (Cadeau Express) (same); MUR 4871 (Broadcast Music) (same); MUR 4796 (DeLuca Liquor and Wine) (same); MUR 2195 (Eklutna) (same).
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LLC taxed as a corporation) could under certain circumstances itself be considered a straw donor under section 30122.28

Unlike the respondents in those LLC matters, however, neither MMWP12 nor Children of Israel has opted to be taxed like a corporation. Further, MMWP12 is a disregarded entity (its sole member being K2M, an LLC taxed as a partnership and owned by Mark and Megan Kvamme through living trusts), while Children of Israel’s sole member is a living trust, whose sole trustee and beneficiary is Saul Fox. A contribution from an LLC that elects to be taxed as a partnership, or that does not elect to be taxed as either a partnership or corporation, is treated as a contribution from a partnership; contributions from an LLC with a single natural person member (that does not elect corporate taxation) are attributed to the sole member.29 In turn, contributions by partnerships are attributed to the partnership itself and (generally) to each partner in proportion to their ownership shares.30 The Commission has previously indicated that living trusts should be disregarded under certain circumstances when attributing contributions.31

By operation of the Commission’s attribution rules, MMWP12’s contributions should have been attributed to K2M and each of its owners, Mark and Megan Kvamme. Similarly, Children of Israel’s contributions should have been attributed to Saul Fox.

III. THESE MATTERS WARRANT THE EXERCISE OF PROSECUTORIAL DISCRETION

Notwithstanding our conclusion that these contributions should have been attributed to the Kvammes and Mr. Fox, several factors counsel in favor of exercising our prosecutorial discretion.

First, the respondents did not have prior notice of the relevant legal interpretation — that is, that the LLC attribution rules apply to contributions to Super PACs. When Congress enacted section 30122 and the Commission promulgated its LLC rules, Super PACs did not exist. Since the Act generally prohibits corporate contributions and limits the amounts that individuals may give to candidates and political committees, including to nonconnected committees, before Citizens United, nearly every alleged straw-donor scheme addressed by the Commission involved excessive and/or prohibited contributions.32 Similarly, the Commission’s LLC


29 See 11 C.F.R. § 110.1(g); see also 11 C.F.R. § 110.1(g)(5) (requiring contributor LLCs to inform recipient committees how the contribution should be attributed and affirm that the LLC is eligible to make a contribution).

30 11 C.F.R. § 110.1(e); see also FEC Campaign Guide for Nonconnected Committees at 111 (providing example of reporting a partnership contribution).

31 Advisory Opinion 1999-19 (Ellis) (“In your situation, it would not matter whether you signed [the instrument] in your capacity as beneficiary or as trustor or as trustee. The evidence establishes that you are the beneficial owner and have retained complete control over use of the funds in the trust. You, as trustee and trust beneficiary, control the use of the funds.”).

32 See, e.g., MUR 4646 (Amy Robin Habie) (finding violation of then-section 441f when individuals reimbursed others’ contributions to candidates in amounts exceeding Act’s limits); MUR 4796 (DeLuca Liquor and Wine, Ltd., et al.) (finding violation of then-section 441f when others’ contributions were reimbursed with corporate funds); MUR 4484 (Bainum) (finding violation of then-section 441f when individual made contributions to
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attribution rules addressed the use of LLCs to circumvent the corporate source prohibitions and amount limitations of the Act, concerns not implicated by contributions to Super PACs. Accordingly, given that Super PACs may accept contributions in unlimited amounts, the section 30122 violations alleged in these complaints, as well as potential reporting violations due to misattributed contributions from LLCs, differ substantially from those historically considered by the Commission.

The Supreme Court has observed that “[a] fundamental principle in our legal system is that laws which regulate persons or entities must give fair notice of conduct that is forbidden or required.” This concern is particularly acute where First Amendment rights are at stake. To decide otherwise would not only create due process concerns but would risk chilling vitally important political speech that is strictly protected by the First Amendment. Indeed, these “vagueness and notice concerns carry special weight” in the Commission’s enforcement decisions. As the Court of Appeals for the District of Columbia has recognized, “[u]nique among federal administrative agencies, the Federal Election Commission has as its sole purpose the regulation of core constitutionally protected activity — ‘the behavior of individuals and groups only insofar as they act, speak and associate for political purposes.’” Thus, the candidates in name of infant son in amounts exceeding the Act’s limits; MUR 4297 (Ortho Pharmaceutical) (finding violation of then-section 441f when incorporated federal contractor reimbursed contributions to candidates).

33 Treatment of Limited Liability Corporations Under the Federal Election Campaign Act, 64 Fed. Reg. 37397, 37398-99 (July 12, 1999). Nothing in the record here implicates the Act’s prohibitions on contributions by foreign nationals or federal contractors.

34 FCC v. Fox Television Stations, 567 U.S. 239, 253 (2012); see also Statement of Reasons of Vice Chairman Donald F. McGahn II and Commissioners Caroline C. Hunter and Matthew S. Petersen at 23, MUR 6081 (July 25, 2013) (“[D]ue process requires that the public know what is required ex ante, and that the Commission acknowledge and provide the public with prior notice of any regulatory change.”).

35 Buckley v. Valeo, 424 U.S. 1, 41 n.48 (1976) (“[V]ague laws may not only trap the innocent by not providing fair warning or foster arbitrary and discriminatory application but also operate to inhibit protected expression by inducing citizens to steer far wider of the unlawful zone. . . than if the boundaries of the forbidden areas were clearly marked.”) (internal quotations omitted); Citizens United, 58 U.S. at 324 (“Prolix laws chill speech for the same reason that vague laws chill speech: People ‘of common intelligence must necessarily guess at [the law’s] meaning and differ as to its application.’”) (citing Connally v. General Constr. Co., 269 U.S. 385, 391 (1926)); Fox Television Stations, 567 U.S. at 253 (“[T]wo connected but discrete due process concerns [are]: first, that regulated parties should know what is required of them so they may act accordingly; second, precision and guidance are necessary so that those enforcing the law do not act in an arbitrary or discriminatory way. When speech is involved, rigorous adherence to those requirements is necessary to ensure that ambiguity does not chill protected speech.”); see also 2016 LLC Statement n.69 and authorities therein.

36 Citizens United, 558 U.S. at 329 (rejecting “intricate case-by-case determinations to verify whether political speech is banned”); see also Connally, 269 U.S. at 391 (“[A] statute which either forbids or requires the doing of an act in terms so vague that men of common intelligence must necessarily guess at its meaning and differ as to its application, violates the first essential of due process.”); Papachristou v. Jacksonville, 405 U.S. 156 (1972) (“Living under a rule of law entails various suppositions, one of which is that [all persons] are entitled to be informed as to what the State commands or forbids.”) (internal quotes omitted); United States v. Williams, 553 U.S. 285, 304 (2008) (clarity in regulation is essential to due process protected by the Fifth Amendment).

37 Campaign Legal Center, 2018 WL 2739920, at *8.

38 Id. (quoting AFL-CIO v. FEC, 333 F.3d 168, 170 (D.C. Cir. 2003)).
“Commission has [a] ‘unique prerogative to safeguard the First Amendment when implementing its congressional directives,’”39 particularly in the enforcement process.

Indeed, the records in these matters suggest that the parties did not “know what [was] required of them”40 to meet their obligations under the Act. Megan Kvamme avers that she raised the disclosure issue with New Day, specifically “noting [her and her husband’s] involvement with MMWP12.”41 Stand for Truth states that it repeatedly sought confirmation that “the contribution [from Children of Israel] was properly reported . . . and was made from legitimate funds that were the property of the LLC.”42 Pursuing America’s Greatness argued that, at the time of the contribution, “existing law and regulations tell us that [a Super PAC] may accept a contribution from an LLC, an LLC is a person, and [Super PACs] must report contributions received from all persons.”43 Therefore, “because Respondents did not have prior notice of the legal interpretation discussed above, . . . applying section 30122 [or the Commission’s attribution rules] to Respondents would be inconsistent with due process principles.”44

Another factor in favor of an exercise of prosecutorial discretion is that the responses to these complaints have fleshed out the public record. Not only did the responses identify the individuals behind the LLCs, the responses provided the information necessary to properly attribute the contributions.45 Furthermore, the Republican National Committee has filed an amended report with the Commission, attributing contributions from Children of Israel to Saul

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39 Id. at *9 (quoting Van Hollen v. FEC, 811 F.3d 486, 501 (D.C. Cir. 2016)).
40 Fox Television Stations, 567 U.S. at 253. Given the apparent confusion, we thought it important to clarify the application of the Commission’s LLC attribution rules to contributions to Super PACs.
41 Kvamme Aff. ¶ 23.
42 Stand for Truth Resp. at 3 (April 19, 2016), MUR 7031 (Children of Israel, LLC, et al.).
43 Pursuing America’s Greatness Resp. at 2 (May 12, 2016), MUR 7031/7034 (Children of Israel, LLC, et al.).
44 2016 LLC Statement at 13. Nor would prior Commission enforcement actions have provided clarity to respondents. Although the Commission has previously found violations of the straw-donor ban and the attribution rules in the context of contributions by partnerships, these matters predated Super PACs, are distinguishable from the facts here, and reflect inconsistent treatment. In MUR 5333 (Litchfield), the Commission found that a partnership made contributions in the name of another when it “used [partnership] funds to make contributions in the names” of individuals who were not members of the partnership. See Conciliation Agreement ¶ IV.9 (Nov. 29, 2006), MUR 5333 (Litchfield). By contrast, however, the Commission merely found a violation of the attribution rules in MUR 5279 (Bill Bradley for President), not of then-section 441f, where contributions were attributed to “individuals who were not partners in the partnership at the time of the contribution.” Conciliation Agreement ¶ V.1 (June 22, 2004), MUR 5279 (Bill Bradley for President, et al.).
45 See Campaign Legal Center, 2018 WL 2739920, at *8 (acknowledging “little to no information harm was suffered by the public” when the creator of a corporate LLC was ultimately disclosed).
Fox. Therefore, the Commission’s further pursuit of these matters would vindicate no public informational interests.

These considerations counsel in favor of exercising prosecutorial discretion: Proceeding in enforcement actions against respondents would be unfair to them, chill speech, and ultimately constitute an ineffective use of Commission resources, given the likelihood that courts would look unfavorably upon enforcement actions here in light of the due process, notice, and First Amendment concerns.

IV. CONCLUSION

For the foregoing reasons, we concluded that the complaints in MURs 6969, 7031, and 7034 should be dismissed in an exercise of prosecutorial discretion. Accordingly, we voted to close the files.


47 In addition to alleging that the respondents in these matters violated section 30122, the complaints alleged that respondents failed to register and report as political committees in violation of the Act. Persons are not generally considered both a political committee and a straw donor: Because the straw donor is a mere mechanism or instrumentality, it does not satisfy the statutory threshold for the definition of political committee at 52 U.S.C. § 30101(4)(A). See United States v. O’Donnell, 608 F.3d at 550 (“To identify the individual who has made the contribution [in a straw donor scheme], we must look past the intermediary’s essentially ministerial role to the substance of the transaction.”). Each complaint focused heavily on whether the entity was a straw donor, and OGC recommended that section 30122 provided the relevant statutory framework. See FGCR at 13-14, MUR 6969 (MMWP12 LLC, et al.); FCGR at 15-16, MUR 7031/7034 Children of Israel, LLC, et al.).

Even if we analyzed the political committee status allegations, the record does not provide reason to believe that respondents were political committees. In MUR 6969, there is no information that the Kvammes, a married couple, had as their major purpose influencing the outcome of a federal election; as to MURs 7031 and 7034, Saul Fox, an individual, is not a group of persons under the Act. Moreover, in MUR 6872 (New Models), two Commissioners determined that an organization that made contributions to a Super PAC did not “receive contributions . . . [or ] ma[k]e expenditures” and “[t]herefore did not meet the statutory threshold for becoming a political committee.” See Statement of Reasons of Vice Chair Caroline C. Hunter and Commissioner Lee E. Goodman at 18, MUR 6872 (New Models).

Further, the records in these matters demonstrate that Johannsen and Gao performed essentially ministerial roles. We therefore did not consider it a prudent use of Commission resources to pursue these matters as to Johannsen and Gao.

48 Campaign Legal Center, 2018 WL 2739920, at *5, *8. Further, under Heckler, the likelihood of success is a relevant factor in agency enforcement decision-making, 470 U.S. at 831, thus implicating the fair notice and due process concerns noted above.

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Caroline C. Hunter by Chair
Chair

Matthew S. Petersen
Commissioner

Sept. 13, 2018
Date

Sept. 13, '18
Date