

# CQ WEEKLY

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## Getting Even Richer

How political consultants are cashing in on campaigns.

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### ■ COVER STORY

# Democracy Has Become A Cash Cow

Escalating political spending generates both massive profits and accusations of self-dealing in the consulting business

BY ELIZA NEWLIN CARNEY

**T**he Citizens United v. Federal Election Commission ruling that blew the lid off campaign spending five years ago has also ushered in a Gilded Age for the booming political consulting industry.

The paychecks earned by the professionals who create and place ads, raise money, take polls, manage communications and direct strategy draw less scrutiny than the billionaire donors who now drive the increasingly deregulated political marketplace. But political consultants have cashed in handsomely, and are earning more money with less oversight than ever before.

In the three federal elections since the Supreme Court threw out limits on independent political spending, consultants have pocketed a healthy cut of the \$13.6 billion spent on campaigns. In the recent midterms, which cost \$3.7 billion, \$275 million of it was spent by outside groups whose activities are partly or completely undisclosed. Such groups are exempt from FEC rules that bar candidates and parties from misusing campaign money. That leaves consultants who work for those groups unfettered by gatekeepers or regulators.

"There's exponentially more money, and there's no oversight," says Mark McKinnon, a Republican strategist who chairs Take Back Our Republic, a new conservative group focused on boosting small donors.





Many of the 920 super PACs launched in the wake of the Citizens United ruling — PACs that may raise unlimited funds if they operate independently from candidates — are created and run by consultants who often also serve as the PAC's chief supplier of political goods and services. Warns McKinnon: "That's a scenario that's ripe for abuse."

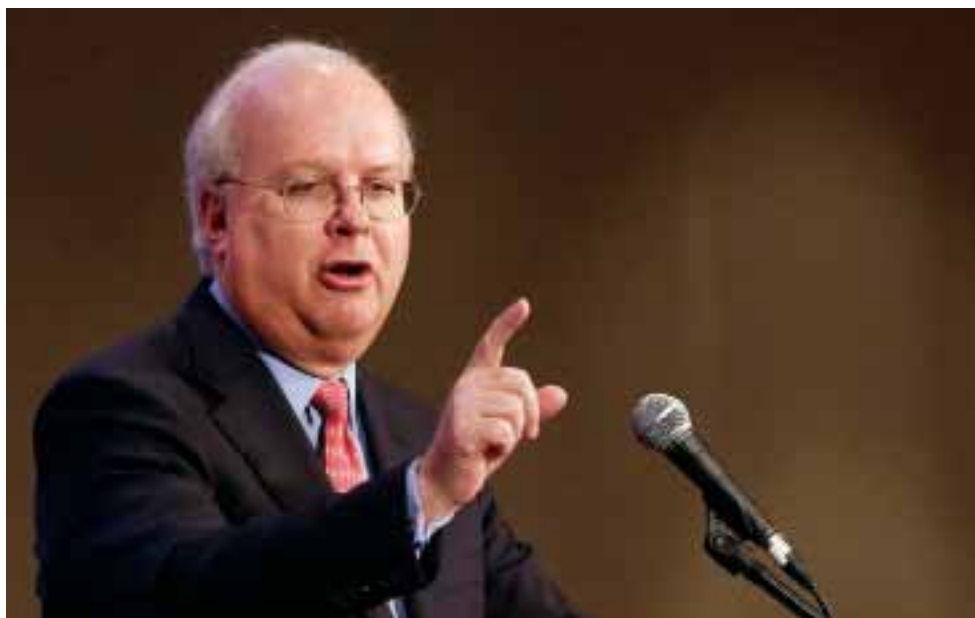
To be sure, most political consultants are professionals who guard their reputations in a competitive field in which mischief quickly dries up clients. Those who belong to the American Association of Political Consultants must sign a code of ethics that bans mispending client funds. Consultants who strike it rich are rarely accused of violating any laws, since many FEC rules don't even apply to outside groups. That's dampened scrutiny from journalists and watchdogs.

The prevailing view appears to be: "It might be unseemly, but where's the harm? It's not a danger to the democratic system," says Sheila Krumholz, executive director of the Center for Responsive Politics.

Still, the bull consulting market is starting to draw complaints from disgruntled donors, candidates and watchdogs. Republican donors staged a minirebellion following the 2012 elections, after conservative outside groups spent hundreds of millions and failed to win the Senate or the White House. Some candidates have filed FEC complaints or lawsuits against super PACs that purport to back them, but that spend little or nothing on campaigns while consultants pocket big sums. Virginia Republican Ken Cuccinelli, for one, has sued the Conservative StrikeForce PAC for allegedly using "fraudulent representations" to raise money in his name during his 2013 gubernatorial campaign.

Consultant-driven outside groups fuel partisanship while driving down turnout, say some political analysts. Media firms earn a percentage of every ad they create and place, motivating consultants to steer money into often-negative ads that depress turnout, as opposed to door-knocking activities that might drive voters to the polls but generate no commission. Partisan fundraising pitches also raise more money.

"There's a real financial incentive to extremism," says Lee Aitken, a retired journalist who wrote a report titled "The Campaign Casino" for Harvard University's Kennedy School of Gov-



**SUPER FUNDRAISER:** Rove says he hasn't made any money from his GOP super PAC American Crossroads.

ernment. "It's really hard to get rich as a moderate, but there's a million new ways to get rich, particularly on the far right."

Indeed, Republicans appear most vulnerable to profiteering consultants. Republicans rely more heavily on nondisclosing tax-exempt groups than Democrats, who instead ran the top-grossing super PACs in the recent midterms. (The latter must report to the FEC, making unusual money transfers hard to obscure.) The veil of secrecy surrounding a conservative group dubbed the Center to Protect Patient Rights made it easier for the group's chief organizer, Sean Noble, to steer an estimated \$10 million to his private consulting firms during the 2012 elections. The

tea party movement has also proved a gold mine for GOP lawyers and consultants running dozens of new super PACs. Tea Party Express has boosted its receipts eightfold in the last four election cycles, but most of the millions that the group raises goes straight to a California consulting firm run by GOP strategist Sal Russo.

But on both sides of the aisle — whether it's the \$670,000 or so that Democratic strategist Paul Begala has scooped up from the super PAC Priorities USA Action in the last few years, or the \$1 million per election cycle that Republican operative Steven Law earns running the GOP super PAC American Crossroads and its tax-exempt affiliate — there's plenty of campaign money to go around.

#### THE BIG GUNS

Earning big money in politics is nothing new, of course, particularly in presidential campaigns. But the pay-day gets larger each election as overall spending goes up. In 2012, Matt Rhoades drew down \$343,000, by Political MoneyLine's tally, as campaign manager to GOP presidential nominee Mitt Romney.

The Romney camp fielded some flak for its high salaries, and for the cozy ties between senior campaign aides and consultants who earned big contracts to run his widely disparaged get-out-the-vote operation. But those aides were ultimately answerable to Romney and to GOP leaders, who reportedly

### Top 10 Vendors in the 2014 Election Cycle

Of the \$3.7 billion campaigns spent in the 2014 congressional elections, approximately 17% — \$613 million — went to 10 political consulting firms.

CYCLE	VENDOR	AMOUNT
2014	● Waterfront Strategies	\$157,985,923
2014	● Great American Media	115,571,767
2014	● National Media Research	69,541,752
2014	● Main Street Media	53,783,036
2014	● Screen Strategies Media	42,577,651
2014	● Mentzer Media Services	42,401,384
2014	● Canal Partners Media	33,060,135
2014	● Strategic Media Placement	32,785,538
2014	● Strategic Media Services	32,732,165
2014	● Automatic Data Processing Inc	32,156,768

Affiliation: ● Democrat ● Republican

SOURCE: Center for Responsive Politics

conducted an audit after the campaign. And his campaign spent more than \$433 million altogether, meaning that whatever went to consultants was still a fraction of total spending.

What's new since Citizens United is the proliferation of big-spending super PACs and tax-exempt groups that are run by consultants instead of by politicians. Such groups have complex and often opaque relationships with their vendors, who sometimes run or advise the very PACs that pay them. The top super PAC in the 2014 midterms, Senate Majority PAC, spent \$66.6 million to help elect Democratic Senate candidates, but it's not clear who got the biggest share of that money.

The vast bulk of it — \$53.4 million, according to CRP — was paid to Waterfront Strategies, a mysterious Democratic consulting firm with no website and virtually no paper trail. A 2012 Huffington Post report found that the firm is housed in the Georgetown offices of GMMB, a powerhouse Democratic consulting shop whose principals include top party strategists Jim Margolis, Frank Greer and Greg Pinelo.

Firms such as Waterfront typically earn a commission of the money that campaigns pay them to create and place ads. Past commissions have run as high as 15 percent, but these days they vary at anywhere from 2 percent to 10 percent, say professionals in the field. Most of the money routed through Waterfront

earned \$567,881 in 2013, according to the most recently available tax disclosures for Crossroads GPS, the super PAC's tax-exempt affiliate, which pays Law's salary. Assuming Law made about the same in 2014, he cleared \$1 million during the full election cycle. Law will also head the Senate Leadership Fund, a new super PAC to help the GOP Senate retain its majority in 2016.

#### FUNNY MONEY

If the top-grossing super PACs dole out high salaries, at least those groups are also spending hundreds of millions on documented campaign activities — TV ads, polls, mailings, PR. Many smaller PACs have managed to raise millions from donors without spending much on candidates or campaigns.

Take Tea Party Express, whose receipts have increased eightfold since its inception, from \$1.4 million in 2008 to \$11.8 million in the 2014 election cycle. The conservative PAC contributed about \$255,000 to GOP House and Senate candidates in the recent midterms. Almost half its receipts — \$4.8 million — went to the California consulting firm that runs the PAC, Russo Marsh & Associates, headed by Sal Russo.

The PAC sends out a constant stream of fundraising appeals to its largely small donors, and spent \$9.2 million of its budget in the recent midterm on fundraising. Russo did not respond to a request for comment.



“There’s exponentially more money, and there’s no oversight.”

— Mark McKinnon, GOP strategist

probably landed in the pockets of TV stations. But an unknown sum ended up in the pockets of consultants at the firm.

The money trail is no clearer at the top-spending Republican super PAC, American Crossroads, founded by GOP strategist Karl Rove. In response to some sniping from conservative activist and sometime candidate Sarah Palin over “experts who keep losing elections and keep getting rehired and raking in millions,” Rove declared in 2013 that he does not “take a dime” from his work with American Crossroads, which spent \$31 million in the 2014 midterms.

But the group’s president, Steven Law,

It’s one of a long list of tea party PACs that rake in money from construction workers, housewives and retirees with urgent calls to assist GOP candidates in crisis, but that spend far more on overhead than on elections.

In a typical example, the tea party PAC Freedom’s Defense Fund raised \$2.8 million in the 2014 election cycle, but made only \$145,000 in contributions and \$75,000 in campaign expenditures, FEC records show. Most of its money appears to have gone to direct mail fundraising firms, including \$1.1 million to a business called Century Data Mailing Services. That firm, according to reports in The New York Times and Salon, has ties to a fund-

raising shop called Base Connect that has a reputation in GOP circles for retaining most of the money it raises.

The Conservative StrikeForce PAC pulled in \$3.3 million in the 2014 cycle, in part by urging donors to back the 2013 gubernatorial candidacy of Virginia Republican Ken Cuccinelli. But while the PAC did dole out about \$220,000 to help more than a dozen candidates, none of it went to Cuccinelli. Just over 87 percent of the group’s money went to fundraising, CRP data show, more than \$1 million of it paid to Century Data Mailing Services, and to a similar firm called Active Engagement.

Cuccinelli sued, alleging that the PAC violated FEC and Virginia laws by using his name “without his authorization,” by inducing contributors to donate “using fraudulent representations,” and by diverting contributions to the PAC and its principals “that should have been contributed to the Cuccinelli campaign,” according to an email from Cuccinelli lawyer Patrick McSweeney.

PAC organizers could not be reached for comment, but Mark Braden, an attorney for the group, told The Washington Post that his clients were “mystified” by the suit, which is ongoing. Braden called it “the classic definition of no good deed goes unpunished.”

A similar complaint was filed with the FEC in 2012 by then-Rep. Allen West, R-Ga., who asked the commission to block “scam PACs” from raising money in his name while running no TV ads to help re-elect him. But the FEC dismissed the complaint, concluding that the activities were not illegal.

#### THE WHEELER DEALERS

Call the offices of The Messina Group, and it’s easy to see why former Obama campaign manager Jim Messina won the Machiavelli Award from the Italian American Democratic Leadership Council in 2013 — an accolade named to honor the legacy of “the first political scientist,” Niccolò Machiavelli, and “showcases a current political mastermind.”

A pleasant female voice answers callers via recording: “You have reached the offices of The Messina Group, Priorities USA and Organizing for Action.” Having earned \$406,973 as what his firm calls the “mastermind” of Obama’s 2012 re-election campaign, Messina has built a far-flung base of clients, including British Prime Minister David Cameron, as head of the Messina group.

He also chairs Organizing for Action, the tax-exempt advocacy group that Obama

launched out of his campaign. That organization has moved into The Messina Group's headquarters, as has Priorities USA Action, a super PAC that will play a central role in the burgeoning presidential fundraising apparatus backing Hillary Rodham Clinton.

It's not clear how much Messina earns from all this, partly because OFA appears to have filed no Form 990 disclosure report with the IRS - notwithstanding the administration's stated commitment to transparency. FEC reports compiled by Political MoneyLine show that Messina's Obama campaign salary included \$113,174 paid in the 2014 cycle, but it's not clear whether that was for closing out campaign activities or for some other purpose.

Messina is one of more than two dozen Obama campaign alumni who have gone on to consulting ventures that collectively earned millions in the recent midterm, according to a CRP analysis. Messina did not respond to requests for comment.

A wheeler-dealer of a different stripe is Dan Backer, a conservative election lawyer who was instrumental in helping Alabama businessman Shaun McCutcheon mount his successful Supreme Court challenge to the aggregate party contribution limits last year in *McCutcheon v. FEC*.

Backer is the driving force behind more than a dozen conservative PACs with such names as Patriots for Economic Freedom, Tea Party Leadership Fund, Defenders of Freedom and Security, and Conservative Action Fund.

Backer's four-person election law firm, DB Capitol Strategies, has boosted its campaign earnings from \$171,648 in the 2012 elections to more than \$650,000 in the recent midterms, according to Political MoneyLine data. Backer describes himself as someone with a passion for free speech who "works like a dog" to keep his clients compliant with the law.

"It's not a get-rich-quick industry," Backer says. "And it's because grass-roots organizations, which is where the growth is, simply aren't able to spend the amount of money on compliance and political law that very large organizations do."

Backer says FEC reporting quirks, which lump everything that isn't a direct campaign expenditure or donation into an ambiguous category marked "other," tend to make legitimate expenses look like overhead. He credited the groups he represents with keeping grass-roots conservatives "actively engaged" through their constant communications.

"Ultimately, because you are in political action committee world, everything is fully disclosed," Backer says. "The market and the donor will decide what they are comfortable with or not."

#### THE WANNABES

There's nothing like a presidential campaign to gin up campaign contributions. Never mind if the campaign's been moribund for two or three election cycles, or if the candidate disavows the PAC raising the funds on his or

her behalf. It's all one to donors and to consultants who depend on money for consulting, polling, speechwriting, and of course more fundraising.

Ex-Arkansas governor and former Fox News host Mike Huckabee has a jump-start on his anticipated 2016 White House bid, thanks to a campaign-style operation that has been in place since his failed 2008 presidential campaign. Huck PAC had its best election cycle ever in the recent midterm, pulling in \$2 million in contributions.

The PAC's ostensible purpose is to help like-minded GOP candidates, but just under 90 percent of the PAC's haul — \$1.7 million — went to operating expenditures, FEC records show. Close to \$330,000 of that total went to a single consulting firm run by Huckabee adviser Chad Gallagher, who runs Arkansas-based Legacy Consulting. Gallagher is also executive director of Huck PAC.

The PAC has also paid \$400,000 to Huckabee's niece, daughter and daughter-in-law since its inception, according to Mother Jones. Gallagher did not respond to requests for comment, but told Mother Jones last month that no Huckabee family members have been on the PAC's payroll for two years.

Huckabee has also revived a tax-exempt advocacy group previously known as the Vertical Politics Institute under the name America Takes Action. Its spokeswoman, Alice Stewart, said Huckabee's nonprofit will "promote issues that he's passionate about and con-

## Super PAC Money at Work ...

Former Alaska governor and GOP running mate Sarah Palin is not a declared candidate for president, but her super PAC still is raising millions, most of which has been spent on political consultants.



Sarah Palin  
**SarahPAC**

**SarahPac** spent:

**\$5.1 million**  
in recent midterms

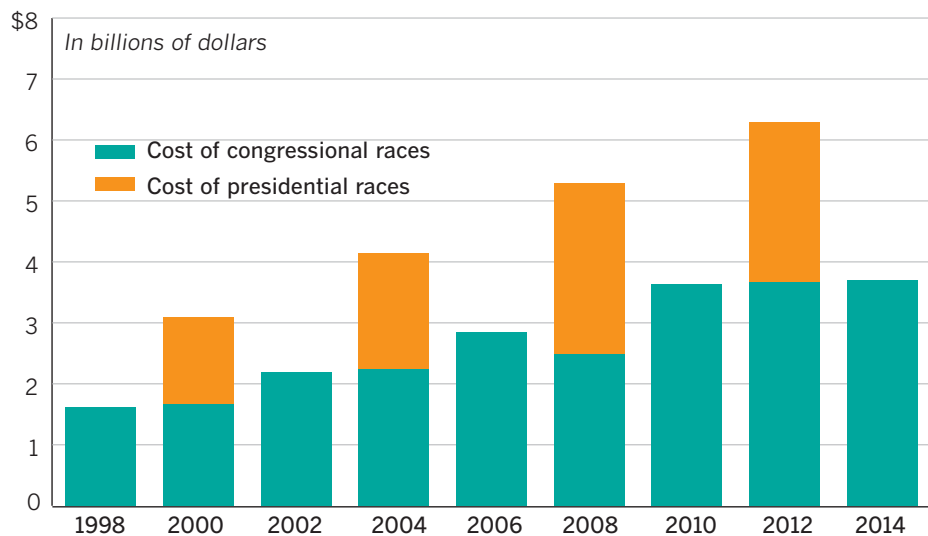
**\$4.8 million**  
went to consultants

**\$298,000**  
went to candidates



## Up, Up and Away

The amount of money spent on campaigns has been rising steadily in the past nine election cycles, with nearly \$3.7 billion spent in the midterm elections last year.



SOURCE: Center for Responsive Politics

cerned with,” but a watchdog group run by Democratic strategists has complained to the FEC that the group is political in nature. Stewart rejects that allegation as “a baseless, partisan attack.”

Another return GOP hopeful, Rick Santorum, has also done a brisk business on his Patriot Voices PAC, which netted \$1.8 million in the recent midterms. The PAC did spend more than \$70,000 on several dozen GOP candidates, but 76.6 percent of its budget went to “other disbursements,” FEC records show. Just over \$900,000 of that went to the strategic marketing firm InfoCision Management. Santorum, too, runs a tax-exempt affiliate, also known as Patriot Voices, which is managed by his former presidential campaign finance director, Nadine Maenza.

Running for president is a popular pastime. The Center for Public Integrity, an investigative news organization, has counted 153 presidential candidates who have filed paperwork with the FEC — though few of them will ultimately make the A-List. But the field boasts more than a half-dozen serious GOP presidential hopefuls, from Sens. Ted Cruz of Texas and Rand Paul of Kentucky to ex-Florida Gov. Jeb Bush. Political MoneyLine recently tallied more than four dozen PACs, super PACs, campaign committees and so-called leadership PACs associated with White House hopefuls.

Former GOP vice presidential contender Sarah Palin has only speculated that she might run for president since setting up her

own PAC, SarahPAC, in 2009. But the PAC spent \$5.1 million in the recent midterms, according to a CRP investigation that found only \$298,000 of that money went to candidates, while the remaining \$4.8 million went to consultants.

Democratic strategist Paul Begala, one of the best paid political consultants in his party, stands to earn among the top 2016 salaries thanks to his role advising the super PAC Priorities USA Action. Begala earned \$440,000 off the super PAC in the 2012 election cycle, when Priorities was backing Democratic Senate candidates, according to Political MoneyLine data. Now the super PAC is gearing up to back Clinton, and has already paid Begala more than \$230,000, according to Political MoneyLine data covering the 2014 elections.

### DARK HORSES

During the recent midterm elections, Democratic leaders made assaults on undisclosed political expenditures, which they labeled “dark money,” a centerpiece of their campaign.

But one of the top 10 outside groups backing Democratic candidates, according to CRP, was Patriot Majority USA, a 501(c)4 advocacy group that spent \$10.7 million. The group’s website touts creating jobs as a central mission, but features prominent attacks on the Koch brothers.

Its chief organizer is Craig Varoga, a longtime Democratic strategist who runs Varoga

& Associates. Since tax-exempt groups are not subject to FEC disclosure rules, it’s not clear how much the firm earned off its activities. But the most recently available tax filings for Patriot Majority USA show that Varoga earned \$144,000 as its president and treasurer. That suggests he pulled in \$288,000 during the 2012 elections. Varoga did not return calls seeking comment.

One of the biggest political consulting hauls of that election cycle probably went to Sean Noble, a little-known GOP consultant who launched a conservative advocacy group dubbed the Center to Protect Patient Rights in 2009. That group was at the heart of a network of tax-exempts largely masterminded and underwritten by the Koch brothers that spent some \$400 million on the 2012 elections, according to investigations by CRP and by the nonprofit news organization Pro Publica.

Noble’s activities drew little notice until the California Fair Political Practices Commission concluded in 2013 that Noble’s center and several other Koch-backed groups had engaged in “money laundering” and disclosure violations, and fined them a record \$1 million. The California probe revealed that Noble had “steered nearly \$10 million in fees and expenses to his private consulting firms in 2011,” Aiken wrote in her “Campaign Casino” report for Harvard.

Noble reportedly has fallen out with the Kochs, and has largely disappeared from view. His story points up the ultimate danger to consultants who play fast and loose with campaign money — and why many in the industry say new regulations are not needed. The FEC has more than once recommended to Congress that all political committees be subject to the same rules that ban candidate and party accounts from spending campaign money on personal use, and that require them to pay fair market rates for services.

“I just don’t believe that donors will recklessly continue to throw away money unless they are getting some return on what their investment is being made in,” says Dale Emmons, a Kentucky political consultant who runs the American Association of Political Consultants.

Still, Emmons acknowledges that consultants who act as vendors for the same organizations that they run face a potential conflict of interest: “There needs to be accountability. A system where people participate in it without accountability cannot be good for our democracy.” ■