



STATE OF WASHINGTON
PUBLIC DISCLOSURE COMMISSION

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BEFORE THE PUBLIC DISCLOSURE COMMISSION
OF THE STATE OF WASHINGTON

In RE COMPLIANCE WITH
RCW 42.17

Troy Kelley

Respondent.

PDC Case No. 13-017

Report of Investigation

I.

Background

- 1.1 Troy Kelley is an incumbent State Representative from the 28th Legislative District since being elected to that office in 2006. He was re-elected State Representative in 2008 and 2010.
- 1.2 On April 13, 2012, Troy Kelley filed a Candidate Registration (C-1 report) declaring his candidacy for Washington State Auditor in 2012.
- 1.3 On September 26, 2012, Kirby Wilbur, Chair of the Washington State Republican Party, filed a 45-day Citizen Action Letter pursuant to RCW 42.17A.765(4) alleging that Troy Kelley, an incumbent State Representative from the 28th Legislative District and a candidate for State Auditor in 2012 violated RCW 42.17A.710 by failing to file complete and accurate Personal Financial Affairs Statements (Form F-1) dating back to 2005. **See Exhibit #1.**
- 1.4 The Citizen Action Letter was received by the Washington State Attorney General's Office (AGO) on September 26, 2012, and by the Pierce County Prosecuting Attorney's Office on September 28, 2012. The complaint was referred by the AGO to the PDC for investigation on September 27, 2012.

II.

45-Day Citizen Action Letter Allegations

- 2.1 The Citizen Action Letter alleged that Mr. Kelley violated RCW 42.17A.710¹ as follows:
 - A. Failed to file an F-1 Supplement for United National, LLC (United National), for calendar year 2008 disclosing: (a) His ownership interest; (b) The multiple trade

¹ Effective January 1, 2012, the PDC's chapter of law was recodified. Prior to 2012, the statute was codified as RCW 42.17.241.

names registered and in active use; and (c) A description of the business involvement in the insurance industry;

- B. Failed to accurately disclose income earned from United National for 2007 in Part 1 of the F-1 report; Reported income for 2009, 2010, and 2011 from United National, even though the company was dissolved in August 2008; and not reporting actual sources of the income earned in 2009, 2010, and 2011.
 - C. Failed to accurately disclose income earned from Attorney Trust Services (ATS) in 2011. (The complaint stated that ATS was dissolved by Mr. Kelley in December of 2010, and questioned the actual source of income attributed to ATS);
 - D. Failed to disclose on the F-1 Supplement filed for Blackstone International that United National was a 2008 business customer making payments over \$7,500 to Blackstone International.
 - E. Failed to disclose on the F-1 Supplement filed for Berkeley United that Blackstone International was a 2008 business customer making payments over \$7,500 to Berkeley United; Reported a 100 percent ownership interest in Berkeley United on the F-1 Supplement, but testified under oath that Wellington Trust owned one percent of Berkeley United;
 - F. Additional questions were submitted about whether Mr. Kelley failed to disclose income and ownership interests for United National 14, LLC, MGM Property Management, and Property Close Insurance Services.
- 2.2 The Citizen Action Letter was accompanied by a flash drive containing 25 separate documents that are described in the Findings section of this Report of Investigation.

III.

Findings

- 3.1 On December 6, 2005, Troy Kelley timely filed a Personal Financial Affairs Statement (Form F-1) declaring his candidacy for State Representative in the 28th Legislative District.² **See Exhibit #2.**
- 3.2 Mr. Kelley timely filed three consecutive F-1A Minor Change or No Change reports as follows: (1) On April 7, 2006, he filed an F-1A report for calendar year 2005. On November 13, 2006 as a candidate (not a required filing) he filed an F-1A report; (2) On January 16, 2007, he filed an F-1A report for calendar year 2006; and (3) On January 15, 2008, he filed an F-1A report for calendar year 2007. **See Exhibit #3.**
- 3.3 On January 16, 2009, Mr. Kelley filed an F-1A Minor Change report for calendar year 2008, but was informed on February 2, 2009, that Commission rules only allowed for an

² Although a two-year statute of limitations applies to citizen actions filed under RCW 42.17A.765, and a five-year statute of limitations applies to Commission enforcement actions, this report includes findings from earlier time periods to the extent they are relevant and necessary to understand Mr. Kelley's more recent F-1 and F-1A filing activities.

F-1A report to be filed for three consecutive years. On April 9, 2009, Mr. Kelley timely filed a complete F-1 report for calendar year 2008. **See Exhibit #4.**

3.4 Mr. Kelley timely filed three consecutive F-1A No Change reports as follows: (1) On April 2, 2010, he filed an F-1A report for calendar year 2009; (2) On March 31, 2011, he filed an F-1A report for calendar year 2010; and (3) On March 5, 2012, he filed an F-1A report for calendar year 2011. **See Exhibit #5.**

3.5 The Citizen Action Letter included a flashdrive containing 25 separate documents in support of allegations that Mr. Kelley violated RCW 42.17.241 or 42.17A.710 by failing to properly and accurately disclose information on the F-1 reports he filed for business entities in which he had a reportable ownership interest. The attached documents included the following:

- An eight-page “Defendants Motion for Redaction” in Old Republic Title (ORT), Plaintiff v. Troy/Diane Kelley, Blackstone International, and Berkeley United, LLC.
- A four-page “Order Denying Defendants Motion to Seal” in ORT v. Kelley, et al.
- A 20-page “Plaintiff’s Motion for Preliminary Injunction” in ORT v. Kelley, et al.
- A three-page declaration with a 25-page exhibit from ORT v. Kelley, et al. court case.
- A three-page print-out from the Secretary of State’s Corporations division website for: Attorney Trustee Services, Inc; United National, LLC; and United National 14, LLC.
- A two-page print-out from the Department of Revenue’s website for United National, LLC, United National 14, and Attorney Trustee Services.
- A two-page letter dated September 13, 2012, from the Department of Revenue concerning United National, LLC.
- A two-page print-out from the Office of the Insurance Commissioner concerning United National, LLC and Troy Kelley.
- A one-page print-out from the Secretary of State’s Corporations division website for MGM Property Management, LLC.
- A two-page print-out from the Nevada Secretary of State’s Corporations division website for United National, Inc.
- A four-page print-out from the Nevada Secretary of State’s Corporations division website for Blackstone International, Inc.
- A two-page print-out from the Nevada Secretary of State’s Corporations division website for Berkeley United, LLC.
- A six-page print-out from the Internet Archive site “waybackmachine.com” concerning United National, LLC and Troy Kelley.
- An August 12, 2008, letter from Gary Corbine, with The Post Closing Department, to “Clients, Staff and Vendors” concerning United National, LLC.
- An Excel spreadsheet alleging Troy Kelley’s F-1 reporting discrepancies by year.
- A one-page printout of a screen-shot for Insurance Agent Troy X. Kelley, from the website NewPolicy4Less.com.
- Driving directions to 2521 N. Fremont Street in Tacoma, for an address listed on the screen-shot above.

- A one-page letter dated September 20, 2012, from the Department of Revenue concerning Attorney Trust Services, Inc. The documents included what appears to be the same one-page letter dated September 20, 2012, from the Department of Revenue concerning Attorney Trust Services, Inc, except it contains redacted information.
- A three-page print-out from the Office of the Insurance Commissioner dated August 31, 2012, concerning Troy Kelley.
- A 64-page pdf document dated April 10, 2009, concerning ORT v. individual plaintiffs.
- 45-day Citizen Action Letter.

3.6 On October 19, 2012, Mr. Kelley submitted a response to the allegations listed in the Citizen Action Letter. **See Exhibit #6.**

3.7 On November 8, 2012, Mr. Kelley met with PDC staff and submitted a supplemental response answering additional questions related to the allegations in the Citizen Action Letter. **See Exhibit #7.** Mr. Kelley's responses are listed below for each appropriate entity.

Allegations: Troy Kelley failed to disclose personal financial information on F-1 and F-1A reports for the entities listed below in violation of RCW 42.17.241 and/or 42.17A.710:

3.8 PDC staff created an Excel Spreadsheet listing the entities for which an F-1 Supplement was filed, or was required to be filed, by Mr. Kelley. **See Exhibit #8.**

United National, LLC:

Allegations:

- Mr. Kelley failed to file an F-1 Supplement for calendar year 2008 disclosing:
 - (1) His ownership interest in United National, LLC;
 - (2) The multiple trade names for United National, LLC that were registered and in active use;
 - (3) That United National, LLC was involved in the insurance industry by including a description of the business.
- Mr. Kelley failed to accurately disclose, in Part 1 of the F-1 report, income earned from United National, LLC for 2007.
- Because Mr. Kelley reported income for 2009, 2010, and 2011 from United National, LLC, a company which was dissolved by Mr. Kelley in August 2008, Mr. Kelley either over-reported income he had not received, or alternatively, failed to report the actual sources of income during these years.

3.9 On December 6, 2005, Mr. Kelley filed his initial F-1 report, covering the period December 2004 through December 2005, disclosing in Part 1 that he and his spouse were Small Business Owners of United National, LLC, with an income code of "E" (more than

\$75,000) for him, and an income code "B" (between \$3,000 and \$14,999) for his spouse. Mr. Kelley also completed an F-1 Supplement for United National LLC, and United National 14, LLC, and several other entities disclosing his ownership interests, a description of each business, the reportable business customers, and the legal or trade name.

- 3.10 On April 10, 2009, Mr. Kelley filed a complete F-1 report, covering all of calendar year 2008. He listed himself and spouse as Small Business Owners of United National, LLC, with an income code of "D" (between \$40,000 and \$99,999) for himself, and income code "B" (between \$3,000 and \$19,999) for his spouse. Mr. Kelley did not file an F-1 Supplement for United National, LLC, with the F-1 report filed for calendar year 2008.
- 3.11 Mr. Kelley filed three consecutive F-1A reports for calendar years 2009, 2010, and 2011, certifying each time that there was no change to the income or any information listed on the F-1 report or F-1 Supplement since Mr. Kelley's complete F-1 report covering calendar year 2008 had been filed.

Alleged failure to disclose ownership interest in United National, LLC:

- 3.12 The F-1 Supplement requires the filer to list his or her ownership interest for each entity. On December 5, 2005, Mr. Kelley filed an F-1 Supplement for United National, LLC, disclosing an 80 percent ownership interest. The F-1 Supplement listed nine business customers, including Old Republic International Corporation, that paid more than \$7,500 during the reporting period for document preparation.
- 3.13 In his response to the Citizen Action Letter, Mr. Kelley stated that United National, LLC, was dissolved in June of 2008, and that there was no ownership interest to report for 2008.
- 3.14 After meeting with PDC staff on November 8, 2012, Mr. Kelley filed an F-1 Supplement for calendar year 2008, disclosing an 80% ownership interest (actual interest was 79.9%) in United National, LLC during 2008. **See Exhibit #9.** He also disclosed seven business customers that paid United National, LLC more than \$7,500 during the first six months of 2008 for "Document Preparation."

Alleged failure to disclose multiple trade names for United National, LLC registered and in active use:

- 3.15 The F-1 Supplement requires the filer to list the Legal Name and Trade or Operating Name for each entity. WAC 390-24-010 is the form for the Statement of Financial Affairs (form F-1 and F-1 Supplement). The F-1 Supplement requires disclosure of information about each entity, including the Trade or Operating Name." The form states: "*Report name used for business purposes if different from the legal name.*"
- 3.16 Mr. Kelley stated that all active trade names in use during the F-1 reporting periods were listed, and that any inactive trade names, including trade names that were never used, were not listed on his F-1 reports. On the initial F-1 Supplement filed on December 5, 2005, Mr. Kelley disclosed that United National, LLC, was the legal name, and that the trade or operating name was Post Closing Department.

- 3.17 As noted above, on November 8, 2012, Mr. Kelley filed an F-1 Supplement for United National, LLC for calendar year 2008, disclosing the trade or operating name using was Post Closing Department.

Alleged failure to disclose inactive trade names for United National, LLC :

- 3.18 The complaint alleged that Mr. Kelley failed to file an F-1 Supplement for several inactive entities, and the associated trade or operating names for those entities.
- 3.19 Mr. Kelley stated that for F-1 reports dating back to 2005, he did not describe any entities as “inactive activities” nor did he list or disclose any “inactive” or trade names because they were never used. He stated that the F-1 Supplement specifically instructs the filer to report the trade or operating name(s) that are used for business purposes. He said the allegations in the complaint concerning “inactive entities” were entities that were not used for a business purpose, and that it was his understanding that inactive entities were not require to be disclosed on the F-1 Supplement.
- 3.20 In his November 8, 2012 response, Mr. Kelley attached a document from the Department of Licensing, Master License Services division, entitled “Registrations and Licenses” for United National, LLC, even though the registered names were never used for a business purpose. **See Exhibit #7, page 4.** The document listed ten registered trade names for United National, LLC, including Post Closing Department, which had previously been disclosed as the trade or operating name on the F-1 Supplement filed in December of 2005.
- 3.21 Mr. Kelley stated the other nine entities listed were registered trade names but were not used for any reportable business purpose as described in the F-1 Supplement under trade or operating names. The nine entities included the following names: (1) PCD; (2) Post Closing Services; (3) Property Close; (4) Property Close Insurance; (5) Property Close Insurance Services; (6) Propertyclose.com; (7) United National; (8) United National Insurance Services; and (9) United National Post Closing Service.

Alleged failure to disclose that United National, LLC was involved in the insurance industry under the description of the business on the F-1 Supplement:

- 3.22 On December 5, 2005, Mr. Kelley filed an F-1 Supplement for United National, LLC, and listed a brief description of United National’s business as being “Document Preparation.” Mr. Kelley also filed an F-1 Supplement in 2005 listing himself as President of the Escrow Association of Washington.
- 3.23 Mr. Kelley stated that United National, LLC was not “actively engaged in the insurance industry as a primary line of business” during the periods covered by his F-1 filings.
- 3.24 Mr. Kelley stated that “United National provided document preparation for insurance services to include document tracking” prior to June of 2008. He acknowledged that the information printed out from the Washington State Office of the Insurance Commissioner’s website and an internet archive site entitled “waybackmachine” listed

United National as providing property and casualty insurance through Property Close Insurance Services. However, he stated that no one requested that service from him, no service was provided, and no reportable income was earned.

- 3.25 The F-1 Supplement for United National, LLC that Mr. Kelley filed on November 8, 2012 for calendar year 2008 lists the brief description of United National's business as being "Document Preparation."

Alleged failure to accurately disclose income earned from United National, LLC for 2007:

- 3.26 Mr. Kelley stated that the income amount reported on his F-1 report for United National for calendar year 2007 was accurate.
- 3.27 On January 16, 2008, Mr. Kelley filed an F-1A report, covering all of calendar year 2007. The No Change report listed no new information concerning United National, LLC. Based on that report, the income code is presumed to be the same amount as previously listed on the last complete F-1 report filed by Mr. Kelley in December of 2005, which listed United National, LLC income for Mr. Kelley as code "E" (more than \$75,000), and for his spouse code "B" (between \$3,000 and \$14,999).
- 3.28 Mr. Kelley stated that he believed he reported all income earned from United National, LLC in 2007, as well as for the other years. He stated that the gross income amount disclosed by him for United National, LLC, included all forms of compensation and benefits such as medical, dental, and contributions to his 401k.
- 3.29 On November 8, 2012, Mr. Kelley filed an amended F-1A covering calendar year 2008 disclosing that United National, LLC was closed in June in 2008, and that the income earned was code "E" and that asset value was code "E" for calendar year 2008, and that no income was earned in 2009, 2010, or 2011 since the entity was dissolved in 2008. See **Exhibit #10**.

Attorney Trustee Services (ATS)

Allegation: Mr. Kelley failed to accurately disclose the source or amount of income during 2011 on the F-1 report (income he earned from Attorney Trustee Services (ATS) in 2011), because ATS was dissolved by Mr. Kelley in December of 2010.

- 3.30 Mr. Kelley filed an F-1A "No Change" report in 2011 that did not mention ATS. He filed a complete F-1 report on April 10, 2009, for calendar year 2008, listing himself as a Small Business Owner of ATS and listing income as code "B." Based on that report, the income code is presumed to be the same amount as previously listed on the last complete F-1 report filed by Mr. Kelley in April of 2009, which listed ATS income for Mr. Kelley as code "B" (between \$3,000 and \$14,999).
- 3.31 Mr. Kelley stated that ATS was dissolved in December of 2010, and that the income amount, Code "B," as last reported in 2008, was the same for the F-1A reports he filed for calendar years 2009, and 2010. He stated that he "*received no reportable income*" from Attorney Trust Services, Inc. during 2011.

3.32 On November 8, 2012, Mr. Kelley filed an amended F-1A report for calendar year 2010, disclosing that Attorney Trust Services, Inc. closed in December of 2010, that there was no income for 2011, and that the asset value was zero. **See Exhibit #11.**

Blackstone International

Allegation: Mr. Kelley failed to disclose United National, LLC as a business customer making payments over \$7,500 to Blackstone International (transfers of cash).

3.33 Mr. Kelley stated that his ownership interests remained the same for each year, and that he owned 100 percent of Blackstone International. He stated that United National, LLC did not make payments as a business customer to Blackstone International, but rather made shareholder distributions.

3.34 Mr. Kelley stated that the United National, LLC transfers of funds to Blackstone International between 2005 and 2008 were transfers of earnings between a parent company (Blackstone, owned 100 percent by Mr. Kelley) and a subsidiary of Blackstone (United National, LLC, of which Mr. Kelley owned 79.9 percent through a sub chapter S corporation). Mr. Kelley said the United National, LLC transfers to Blackstone International were for shareholder distributions per Internal Revenue Service (IRS) regulations.

Berkeley United

Allegation #1: Mr. Kelley failed to disclose Blackstone International as a 2008 business customer making payments over \$7,500 to Berkeley United (transfers of cash).

Allegation #2: Mr. Kelley reported a different ownership interest in Berkeley United (100%) on the F-1 Supplement than he testified to under oath (1% of the balance was owned by Wellington Trust).

3.35 Mr. Kelley stated Berkeley United was owned by the Wellington Trust and Blackstone International, and that it was incorporated in May of 2008. The F-1 Supplement requires disclosure of payments each entity receives from business customers for the sales of goods or services at or above the statutory minimum (\$7,500 through 2008, and then \$10,000).

3.36 Mr. Kelley stated that the *“companies (he owns and controls) did not make payments to each other as business customers. If there were any transfer of funds, it would have (been) between parent company and subsidiary.”*

3.37 Mr. Kelley filed the last complete F-1 report on April 10, 2009, disclosing on an F-1 Supplement he filed for Berkeley United, LLC, that he owned 100 percent of the entity. He stated that the “ownership percentages” were correctly reported and reflected changes in actual ownership.

Additional questions concerning alleged failure to disclose trade names and ownership interests for United National 14, LLC, MGM Property Management, and Property Close Insurance Services:

MGM Property Management:

- 3.38 Mr. Kelley stated that he had no ownership interest in MGM Property Management, and that he had nothing to disclose on his F-1 reports for that entity because he received no income from MGM Property Management during the last five years.

Property Close Insurance Services:

- 3.39 Mr. Kelley stated that Property Close Insurance Services was one of the trade names registered for United National, LLC, but was not used for any business purpose. He stated that Property Close Insurance Services “*did not hold itself out to the public for business during the reporting periods*” and that all reportable information was reported under United National, LLC, on the F-1 Supplement.

United National 14, LLC:

- 3.40 On December 6, 2005, Mr. Kelley filed an F-1 report for United National 14, LLC, disclosing in section 3c for Assets and Investments that he earned an income code “B” (between \$3,000 and \$14,999), and the entity had an asset code “B.” On December 5, 2005, Mr. Kelley also filed an F-1 Supplement for United National 14, LLC and listed a brief description of the business as being “Document Preparation.”
- 3.41 Mr. Kelley stated that United National 14, LLC was dissolved in 2008, around the same time as United National, LLC was dissolved. He stated “*the company was closed in June of 2008 and formally dissolved on or before August of 2008.*”
- 3.42 On November 8, 2012, Mr. Kelley filed an F-1 Supplement for United National 14, LLC, for calendar year 2008, disclosing United National 14, LLC, was dissolved in 2008, and that there was no income earned in 2008, and the asset value was zero. **See Exhibit #12.**

IV.
Scope

- 4.1 Staff reviewed the Citizen Action Letter filed against Troy Kelley by Kirby Wilbur, and the documents contained on the flash drive submitted along with the letter.
- 4.2 Staff reviewed the F-1 reports and F-1A reports filed by Troy Kelley.
- 4.3 Staff met with Troy Kelley on November 8, 2012, and at that meeting, Mr. Kelley filed two amended F-1A reports, and two amended F-1 Supplements.

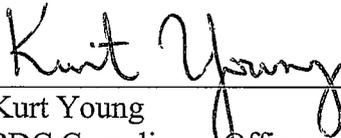
V.
Laws and Rules

- 5.1 **RCW 42.17.240** requires all elected and appointed officials to file F-1 reports, and to disclose personal financial information for the reporting individual and each member of his or her immediate family. **RCW 42.17.241** states that the F-1 reports shall include:

- (1) Each occupation, employer, and business address;
- (2) The name and address of each governmental entity, corporation, partnership, joint venture, sole proprietorship, association, union, or other business or commercial entity from whom compensation has been received in any form of a total value of two thousand dollars or more; the value of the compensation; and the consideration given or performed in exchange for the compensation;
- (3) The name of any corporation, partnership, joint venture, association, union, or other entity in which is held any office, directorship, or any general partnership interest, or an ownership interest of ten percent or more; the name or title of that office, directorship, or partnership; the nature of ownership interest; and: (i) With respect to a governmental unit in which the official seeks or holds any office or position, if the entity has received compensation in any form during the preceding twelve months from the governmental unit, the value of the compensation and the consideration given or performed in exchange for the compensation; and (ii) the name of each governmental unit, corporation, partnership, joint venture, sole proprietorship, association, union, or other business or commercial entity from which the entity has received compensation in any form in the amount of *ten thousand dollars or more during the preceding twelve months and the consideration given or performed in exchange for the compensation.

5.2 **WAC 390-24-010** is the form for the Statement of Financial Affairs (form F-1 and F-1 Supplement). These forms describe the information that must be disclosed for each entity, including, on the F-1 Supplement, the trade or operating name.

Respectfully submitted this 26th day of November, 2012.



Kurt Young
PDC Compliance Officer

List of Exhibits

- Exhibit #1** 45-Day Citizen Action Letter filed against Troy Kelley by Kirby Wilbur (NOTE- this exhibit does not include any of the documents included on the flashdrive and referenced in section 3.5 of this report.)
- Exhibit #2** Personal Financial Affairs Statement (F-1 report) filed on December 6, 2005, by Troy Kelley.
- Exhibit #3** F-1A Minor Change or No Change reports filed by Troy Kelley: (1) On April 7, 2006, for calendar year 2005; (2) On January 16, 2007, for calendar year 2006; and (3) On January 15, 2008, for calendar year 2007.
- Exhibit #4** Complete F-1 report with Supplements was filed by Troy Kelley on April 9, 2009, for calendar year 2008.

- Exhibit #5** F-1A No Change reports filed by Troy Kelley: (1) On April 2, 2010, for calendar year 2009; (2) On March 31, 2011, for calendar year 2010; and (3) On March 5, 2012, for calendar year 2011.
- Exhibit #6** October 19, 2012, letter from Troy Kelley in response to the allegations listed in the Citizen Action Letter.
- Exhibit #7** November 8, 2012, letter from Troy Kelley in response to PDC staffs request for additional information.
- Exhibit #8** PDC staff generated Excel Spreadsheet listing the entities for which an F-1 Supplement was filed, or was required to be filed, by Troy Kelley.
- Exhibit #9** November 8, 2012, F-1 Supplement filed by Troy Kelley for United National, LLC for calendar year 2008.
- Exhibit #10** November 8, 2012, amended F-1A filed by Troy Kelley for United National, LLC, disclosing LLC was closed in June in 2008, and income and asset codes for calendar year 2008, and that no income was earned in 2009, 2010, or 2011.
- Exhibit #11** November 8, 2012, amended F-1A report filed by Troy Kelley for calendar year 2010 disclosing that Attorney Trust Services, Inc. closed in December of 2010, and that there was no income for 2011, and that the asset value was zero.
- Exhibit #12** November 8, 2012, F-1 Supplement filed by Troy Kelley for United National 14, LLC for calendar year 2008.