

Terry McAuliffe and the Rise of the House of Uglad

By Will Allen – July 9th, 2013

Terry McAuliffe, the Democratic fundraiser-turned-gubernatorial-candidate, is closely linked to a company headquartered in a Cayman Islands building long derided as a tax shelter by President Barack Obama and other prominent Democrats.

The company, Leaf Clean Energy, trades on the London Stock Exchange under the ticker symbol LEAF and describes itself as “a renewable energy and sustainable technology investment firm.” In its most recent report to investors, the company listed as its official address a post-office box in Uglad House, a Grand Cayman office building that serves as the nominal headquarters for nearly 19,000 companies. Uglad House has attracted considerable criticism as a tax shelter — so much so that its official website is largely devoted to defending the practice of incorporating on its premises. Among its critics is President Obama, who lambasted the building in a May 2009 speech on tax reform:

On the campaign, I used to talk about the outrage of a building in the Cayman Islands that had over 12,000 business — businesses claim this building as their headquarters. And I’ve said before, either this is the largest building in the world or the largest tax scam in the world.

During the 2012 presidential campaign, McAuliffe himself suggested that GOP nominee Mitt Romney’s use of tax shelters created the impression if not the reality of impropriety. In a January 2012 symposium on the presidential race, McAuliffe called on Romney to release his tax returns:

I think there’s something to be said for getting — it’s now part of the narrative, and the biggest problem for Governor Romney is Republican leaders are coming out every day . . . So he’s got to get it so that his own party is now saying there must be a problem. There aren’t — nobody knows anything; people are just speculating. I mean, the guesstimate would be, I mean, you know, he’s been in business, and at the time tax shelters were legal, and maybe there’s some things in there where he didn’t pay taxes. He was legally entitled not to do it, but by not putting it out there, you’re letting everybody’s imagination run wild. His biggest problem are Republican governors now saying, release the documents. I would lance it.

The Republican nominee for governor, Virginia Attorney General Ken Cuccinelli, has released his full tax returns for the past eight years and repeatedly called on McAuliffe to do the same. As of this writing, the Democrat has only released summaries of his returns.

Yet, while the full extent of Leaf’s connection to Terry McAuliffe remains unclear, its existence is beyond doubt. To begin with, the company’s four-member board includes longtime McAuliffe friend and associate Peter O’Keefe, who once worked on the Democratic National Committee and in the Clinton White House. According to the *Washington Post*, McAuliffe once jokingly referred to O’Keefe as “my Irish consigliere” and described him in his memoir as “one of the best fundraisers I’ve ever trained.”

Moreover, McAuliffe himself was quoted as the head of Leaf Clean Energy in a 2010 article by the *Tidewater News*, which described a bid by Leaf to purchase space in a defunct International Paper Co. plant in Franklin, Va., for use as a biomass-fuel-pellet manufacturing facility. The *News* quoted the former Democratic National Committee chairman speaking to the *Richmond Times-Dispatch* about the bidding process: “‘We clearly are the leader,’ McAuliffe said of his group, the Leaf Clean Energy Co.” However, he is not currently listed on the board of directors or the management team for Leaf. When asked whether Terry McAuliffe was still affiliated with the company, a receptionist in Leaf’s Washington, D.C., office responded, “Who?” A message left with Mr. O’Keefe in the same office was not returned.

Nevertheless, McAuliffe’s affiliation with Leaf continues through a Virginia holding company headquartered at his house. Leaf is a “Partner/Affiliate” of Capital Management International (CMI), a limited-liability partnership which describes itself as “a diversified investment vehicle focusing on renewable energy.” In its official filing with the Virginia State Corporation Commission, CMI lists McAuliffe as its registered agent and his McLean home as its principal office. However, McAuliffe or someone close to him may be trying to distance the candidate from CMI. As of April 30, he was listed at the top of the firm’s “About Us” page; but by May 4, shortly after the *Tidewater News* contacted the company to ask about the Franklin pellet-manufacturing project, all references to McAuliffe had been removed.

That project has engendered its own controversy in Isle of Wight County, as the pellet plant has failed to materialize more than three years after McAuliffe announced his bid for the site. I spoke this afternoon with Lisa Perry, director of the county’s Department of Economic Development, who assured me that the project is still active and answered “Yes” when asked whether McAuliffe was still personally involved (notwithstanding CMI’s removal of McAuliffe from its website). Perry also said, “This is a real project. We have approached it from the beginning as a real project. . . . I have complete confidence that it will continue.” Citing nondisclosure agreements, Perry could not furnish details about the current state of the undertaking; but she explained that “Being engaged with International Paper on this type of economic development project is overwhelmingly difficult,” and cited “just the fact that International Paper is engaged with this company at all” as evidence of seriousness on the part of McAuliffe and his consortium.

Notwithstanding the sketchy character of the Franklin project or the now-infamous GreenTech Automotive plant in Mississippi, it bears stressing that the mere fact of incorporation in the Caymans does not evince illegal activity by McAuliffe or his associates. Tax avoidance, while politically toxic, is often both legal and highly rewarding. Many conservatives and libertarians (e.g., Daniel J. Mitchell of the Cato Institute) have defended legal tax avoidance as a financially responsible option for managers, who face an obligation to maximize the wealth of their investors. U.S. law requires that corporate income be taxed twice — first at the corporate rate of up to 35%, then at the individual rate (as wages or investment income). As *Foreign Policy*’s Joshua E. Keating explained in a January 2012 article on Uglad House, incorporation abroad allows investors to escape this double taxation, since income from foreign entities is only taxed once at the individual rate.

In short, based on the available evidence, Terry McAuliffe appears to have used Leaf Clean Energy as precisely the kind of perfectly legal tax shelter that he and his fellow Democrats routinely rail against as immoral and irresponsible. Until he releases his full tax returns, there is no way of knowing for sure.