

How a public program at UNC enriched its former leader's private businesses

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Eight years ago, Michael Lemanski's grand vision to redevelop downtown Durham was crashing.

The roof on one of his properties, a former tobacco warehouse, had partly collapsed after what tenants described as years of neglect. His Greenfire development company had missed deadlines on city-backed incentives that would have pumped millions into other planned redevelopments. Now it was unloading properties that had sat undeveloped during the Great Recession.

In the midst of this slide, Lemanski found a safe harbor at UNC-Chapel Hill's School of Government as the director of a new university program helping local communities find developers to rebuild rundown areas. Lemanski took on the job with a \$90,000 starting salary, and soon became viewed as a guru for the redevelopment of downtowns — including Durham's — in three states.

But Lemanski didn't stop being a developer, and his six-year stint as leader of UNC's Development Finance Initiative brought new opportunities to make money in public-private partnerships involving millions of dollars in public and nonprofit incentives.

Lemanski set up a satellite office in downtown Durham, near his private businesses, where a business partner of Lemanski's ran DFI operations at a cost to UNC of more than \$1.5 million over three years. Lemanski and two other DFI workers took on a private development project spun from DFI recommendations, and those two workers have used the DFI office as a contact address for their private businesses, records show.

Such activity raises questions as to how much DFI is benefiting the private business interests of Lemanski and the developers who still work there. One DFI-advised project in Greenville drew those questions at a council meeting.

A regional development foundation in Danville, Virginia, paid Lemanski's Watershed Ventures \$10 million for one project, and Fayetteville has invested roughly \$18 million in Lemanski's and his partners' \$70 million downtown redevelopment that includes apartments, an office tower and a hotel adjacent to the city's new ballpark.

In June 2017, Lemanski left DFI and started up a real estate development investment firm, Rivermont Capital, that now partners with builders bidding on redevelopments in other DFI-advised communities, including Fuquay-Varina. That means his business partners at DFI are in the position of generating opportunities that could go to him.

Amid this activity, Lemanski has boasted he's a key player in downtown Durham's revival. In one development proposal, he claimed a lead role in developing One City Center, a newly-opened 27-story skyscraper. The developers say that's false.

Lemanski's former bosses at UNC say DFI did great work under Lemanski, and DFI continues to be a key resource for communities. They say they've resolved conflict-of-interest issues that arose during his tenure, and they now keep a close watch on his efforts to win business with DFI-advised communities.

"I'm sorry that you've chose to focus so narrowly on this issue which is in the past that has been addressed," said Michael Smith, School of Government dean, in an emailed statement to The News & Observer. "DFI is a great example of the University helping communities across North Carolina realize their economic development potential."

UNC officials say DFI is a unique program among public universities. But a business ethics expert said the university's decision to let active developers serve as DFI staff creates a need for clear boundaries and transparency.

"Just because you are doing good doesn't mean you can do it any way you want," said Joanne Ciulla, a Rutgers University professor.

#### CONFLICT OF INTEREST CITED

Lemanski told The News & Observer in a short email: "As you know, I haven't worked at DFI for over 2 years, so I am not in a position to answer your questions about DFI or the University. I can tell you that I was impressed with the thoroughness of the School's efforts to avoid real and potential conflicts when serving local governments."

But at the time of his exit, UNC was dealing with an internal audit that found a conflict of interest in the operations of DFI's Durham office. A company led by Carl Webb, a business partner of Lemanski's, had been given a no-bid contract to run the office's operations. The audit also said a DFI employee had not disclosed ties to 47 businesses. Other UNC records and state business filings suggest that employee was Lemanski.

UNC redacted the names of people and businesses cited in the May 2017 audit, The News & Observer reported in March after obtaining the audit through a public records request. The auditor said the services the business provided were of "appropriate value."

UNC wouldn't say who held the sole-source contract, but UNC financial records obtained through another records request by The N&O show a company called The Redevelopment Collective billed the university \$1.52 million from May 2014 to February 2018 as a contractor providing office space and staff to DFI.

Webb, a Greenfire partner who now works with Lemanski's NSV Development, owned and managed The Redevelopment Collective, the UNC records show.

UNC hired the collective's employees and took over the rent payment in late 2017.

## PRAISE FROM UNC

UNC tightened DFI's conflict of interest policies in 2017 to try to avoid cases in which its staff sought development work in the communities they had advised. UNC praised Lemanski for his DFI work, and the university continues to encourage DFI staff to work in the private sector, so long as school officials are notified and find no conflicts of interest.

"The outside experience with private projects gives those employees current and relevant knowledge about development practices that can be shared with students and local governments," said Tyler Mulligan, who replaced Lemanski as DFI's director, in a recent blog post about the issue.

Mulligan is an attorney and School of Government professor with expertise in economic development incentives and real estate investment. He launched DFI with a \$1 million grant from the Local Government Federal Credit Union in Raleigh. DFI does not receive General Assembly funding. It charges communities a sliding-scale fee based on population, and sometimes does the work for free.

The School of Government knew of potential conflict-of-interest issues in hiring Lemanski in August 2011. Its employment letter to him identified issues with Greenfire, and noted that he had stepped down as a managing partner.

Citing the university's conflict of interest policy, the letter said: "The core of the policy is that in your work with UNC Chapel Hill, situations that favor, have the potential to favor, or are seen as favoring Greenfire should be avoided."

In December 2012, the Danville Regional Foundation hired DFI to come up with revitalization plans for the city's River District. Two years later the foundation paid \$10 million to a new business Lemanski founded, Watershed Ventures, to lead the redevelopment. He was still running DFI. Lemanski hired Jordan Jones, who was on a paid fellowship with DFI, to work as a project manager for Watershed.

Jones said in an interview that when he took the job he continued to work for DFI part time, but as a contractor to a business he wouldn't identify. UNC records show it was the Redevelopment Collective. When UNC ended that contract Jordan became a UNC employee continuing to work for DFI.

Jones said he stopped working for Watershed about a year ago, and was unaware of any redevelopment. He said the project at that time needed to acquire more property to achieve a critical mass to attract developers.

## REDEVELOPING FAYETTEVILLE

In May 2014, Fayetteville struck a \$50,000 contract with DFI to evaluate development opportunities in three distressed areas. One was the dilapidated Prince Charles Hotel in downtown, which Jones said had caught the eye of an investor group; another was a section city officials eyed for a new baseball stadium. The third was a residential area. Jones said he was the project manager for the Prince Charles evaluation, but he also worked on the other two.

The hotel's owners were putting the hotel up for public auction in December. But the investor group had walked away, Jones said, so Fayetteville's then-city manager asked Lemanski, Jones and another DFI contract worker, Rory Dowling, if they knew anyone who might want to bid on it. By then, DFI had finished its work on the hotel.

They found other investors who asked them to be the development team, Jones said. The investors bid the minimum required, \$200,000.

It was the only bid offered, and the owners accepted.

Two months later, Lemanski sent a letter to Fayetteville informing the city of his new venture and the potential conflict of interest it created in his public role as DFI director.

"The School of Government and DFI value their trusted relationship with local governments," Lemanski wrote in the letter dated Jan. 28, 2015. "Accordingly, the DFI Director will not join the development team for the Prince Charles Hotel in his personal capacity unless the City first consents to the arrangement and waives any conflict of interest pertaining to ongoing work being performed by DFI on projects other than the Prince Charles Hotel."

He gave Fayetteville two options. It could decline to go along with the arrangement, or agree to it so that DFI could continue to work with the city on other projects. Fayetteville chose the second option, but hasn't worked with DFI since, said Nathan Walls, a city spokesman. Lemanski and his partners closed on the property days after getting clearance from Fayetteville. His development team later added Bob Bistry, Jones said. Bistry is an architect based in South Florida who began working for DFI as an adjunct instructor in September 2016.

While Lemanski and his partners paid the minimum bid for the hotel, the former owners still had the parking lot next door. The hotel had minimal development potential without it. The partners purchased the neighboring parcel for \$2.07 million.

Thus began a series of moves by the Prince Charles partners over the years to find a way to make the redevelopment viable. They ultimately convinced the city to relocate its new ballpark next to the hotel, which is now part of a much larger \$70 million project that includes the city chipping in for a parking deck and plaza.

The hotel is being renovated into apartments with rents as high as nearly \$2,000 a month, and the city-owned parking deck under construction serves as the foundation for a planned hotel and seven-story office tower.

The Fayetteville City Council recently approved spending an additional \$1.5 million to cover cost overruns on the parking deck at developers' request.

Fayetteville Mayor Mitch Colvin said in an interview he supports the project for helping to energize the downtown and build the tax base. But he wants to make sure it is fiscally sound. He was first elected to the council in 2013 and became mayor four years later.

He also said it would help him and other Fayetteville officials if UNC would release more information from the audit so they could understand the conflicts.

"If there's any kind of assumption that anything was incorrect, I think the city needs to be able to show fully how it operated in a transparent way without conflict, and so the only way you can do that is to have a report that is forthcoming and not full of redactions that take out critical information," he said.

## DEVELOPER TIES

DFI's developer connections are so interwoven that others confuse the developers' private projects with their public work. A Gastonia PowerPoint presentation identified the Fayetteville redevelopment as a DFI project, while an Urban Land Institute conference session agenda featuring the redevelopment identified Jones and Dowling as DFI project managers.

Several of Jones' businesses have listed the address of the Durham DFI office in Secretary of State filings. Dowling, who continues to work for DFI, lists the same address for his private real estate development company, 1st & Main Development, on its website.

Ciulla, the Rutgers business ethics expert, said those who use public office addresses as contacts for private business raise the question as to whether they are using public resources for private purposes. Jones said he does DFI work predominantly at the office, but he has occasionally taken calls and emails regarding his private work. Dowling could not be reached by email or phone.

Jones said he wants to be financially successful as a developer, but he also wants to rebuild communities. Fayetteville, for example, is his former hometown, while he said his mother's family hails from Albemarle, where he has started a company with hopes to redevelop a hotel. It too was a DFI client, but Mulligan said Jones wasn't involved in that work.

## ENOUGH OVERSIGHT?

UNC-CH School of Government officials say DFI has worked on more than 130 projects in 85 North Carolina communities. DFI's work with Wilmington, for example, helped lead to construction of a nearly \$80 million complex of condos, retail and parking space called River Place that is nearing completion, with the city chipping in roughly \$20 million.

Mulligan said DFI's success "stems from its commitment to local governments — DFI enters into years-long engagements with communities. DFI staff also teach North Carolina's next

generation of leaders through a graduate course in community revitalization, which provides analysis to North Carolina communities at no charge.”

But using active developers with connections to Lemanski drew concern in Greenville. Last year, a DFI-supported effort to redevelop a former tobacco processing plant there slowed after an alternate member of the city’s board of adjustment, Dillon Godley, noted a potential conflict of interest. He told the city council that Jones, who as a DFI representative advised Greenville in its quest for redevelopment, is also a business partner of Lemanski’s.

Lemanski, as Rivermont’s CEO, was part of a team that pitched a proposal to Greenville to do the redevelopment. It would have involved the city paying roughly \$15 million for a parking deck, several Greenville media outlets reported.

Godley said in an interview that while he doesn’t know the details of UNC’s DFI program, “you would think that for an economic development entity there would be far greater oversight in terms of what its employees can and cannot do than what there appears to be.”

Jones said he stepped away as soon as he learned Lemanski was part of a bid for the redevelopment. Mulligan sent a letter to Greenville’s city manager on Sept. 26, 2017, explaining Lemanski’s connections to DFI and Jones. Mulligan said a review panel within DFI found no conflict of interest. Jones had no financial interest in Rivermont, which had a minor role with the developer, Mulligan said, and DFI would play a minimal role in the town’s selection of a developer.

Greenville is one of three DFI clients who have subsequently taken redevelopment pitches from a team that includes Rivermont, UNC-CH officials say. The others are Fuquay-Varina and Morrisville. So far, only Fuquay-Varina has moved forward, with tentative plans for 240 residential units and 20,400 feet of retail space. The city would provide \$1 million toward infrastructure such as sewer and water lines as well as a parking lot.

Jones advised Fuquay-Varina on the project, and Mulligan sent a similar letter when Rivermont surfaced as part of that developer’s bid.

Rivermont is also providing the financing for a major redevelopment in Kannapolis; UNC-CH officials say that came after DFI’s work was finished.

“DFI cannot control and does not track the activities of former employees,” Mulligan said in the blog post. “However, DFI becomes aware when a former employee’s activities intersect with DFI’s active projects.”

## ROLE IN DURHAM

As NSV and Rivermont have sought to strike up public-private redevelopment, Lemanski’s descriptions of his role in Durham’s downtown revival have drawn skepticism from those familiar with Greenfire’s history in the Bull City, and in the case of the One City Center developers, a denial.

An unsuccessful development proposal NSV submitted with builder Armada Hoffler for a project in New Hanover County offered the center as a “case study” of Greenfire’s success in downtown Durham.

“This project was the centerpiece of Greenfire’s redevelopment vision,” the proposal said. “To create the opportunity for the new Durham landmark on what was once the most distressed block of downtown, Greenfire had to redeveloped (sic) the surrounding blocks and attract both public and private partners including the City of Durham, Durham County, Duke University, Armada Hoffler and Austin Lawrence Partners. Each partner was able to focus on their area of expertise and to maximize the strong market opportunity Greenfire had created in Durham’s city center.”

Jane and Greg Hills of Austin Lawrence Partners, the center’s developers, scoffed at that characterization. They said he has had no involvement in the project since Greenfire’s sale of the undeveloped parcels to Austin Lawrence. Greenfire kept a tiny, \$250,000 stake in the project, but Lemanski had no other input, they said.

“It’s a flat-out lie,” Greg Hills said after reading the proposal. “It’s totally fraudulent. He had absolutely nothing to do with it and you can quote me on it. I will swear on a stack of bibles to it.”

Greenfire had renovated smaller properties in downtown Durham, notably the Kress Building, Baldwin Lofts and Rogers Alley. But larger projects languished, and the warehouse’s partial collapse hurt the company’s relationship with the city. Lemanski said at the time his firm wasn’t responsible for the collapse, blaming it on a storm surge.

## RIVERMONT

Until about four months ago, Rivermont and NSV were located in a building on Mangum Street around the corner from DFI’s downtown Durham office. They both now operate out of space in the N.C. Mutual Life building downtown. NSV owns the building and is renovating it.

The other principal listed along with Lemanski on Rivermont’s website, Andrew Holton, did not return messages to his cellphone. He had been general counsel to State Treasurer Janet Cowell, a Democrat who didn’t seek re-election in 2016, and he worked part-time for DFI from July 2016 to February 2017 as an interim operations director, UNC records show.

Another prominent Rivermont worker was Thomas Stith, a former chief of staff to Gov. Pat McCrory, a Republican who lost re-election in 2016. Stith said in an interview in early May that he was told his contract with Rivermont as a part-time adviser on governmental relations was up at the end of that month and wouldn’t be renewed.

## BEHIND OUR REPORTING

### Why did we report this story?

Last year, we became aware of issues within UNC-Chapel Hill's Development Finance Initiative. In particular, the former director had in two cases led DFI work in advising communities on development possibilities, and then started private businesses to launch those developments, which involve millions of dollars in public or nonprofit investment. We sought records from UNC, and discovered another issue in a heavily-redacted internal audit that pointed to a conflict of interest in the DFI office operations and a lack of disclosure of business ties by a DFI employee. Our subsequent reporting focuses on a central question: How much has DFI aided the private business interests of the developers working for it? (Read more by clicking the arrow in the upper right.)

### Who did we contact for this story?

We sought interviews with UNC officials who oversee DFI; they responded by email through spokespersons. Michael Lemanski, the Durham developer and former DFI director, provided a brief email response largely declining comment after an email, phone call, and visit to his office. He did not respond to two follow-up emails. Jordan Jones, a DFI development advisor and business partner of Lemanski's, visited our newsroom for an interview and took us on a tour of the Fayetteville redevelopment project. Other current or former DFI staff who have business relationships with Lemanski did not return phone or email messages, nor did Carl Webb, his former business partner in Greenfire and now a principal in his NSV Development. We also made repeated efforts via phone and email to speak with Danville Regional Foundation officials about their use of DFI and the project that followed with Lemanski's Watershed Ventures at the helm.

The redacted audit described a sole-source contract to run the DFI office's operations, but UNC wouldn't say who held the contract. Richard West, a representative of the company that owns the building that houses the Durham DFI office, said the company rented the space for nearly two years to The Redevelopment Collective, rather than to UNC. The N&O then requested from UNC financial records that show the collective billed the university \$1.52 million from May 2014 to February 2018 as a contractor providing office space and staff to DFI. Webb owned and managed the collective, the UNC records show.



## HOW A UNC COMMUNITY SERVICE PROGRAM PROVIDED OPPORTUNITY TO A STRUGGLING DEVELOPER

AUGUST 12, 2011

### UNC-CHAPEL HILL HIRES LEMANSKI FOR NEW DEVELOPMENT FINANCE INITIATIVE

The hiring comes after Lemanski stepped down from leading Greenfire Real Estate Holdings, a company that had amassed roughly 30 properties in downtown Durham, but struggled to redevelop many of them.

DECEMBER 2012

### DANVILLE REGIONAL FOUNDATION HIRES DFI

The \$12,000 contract calls for DFI to evaluate and identify redevelopment opportunities for Danville's River District.

MAY 2014

### FAYETTEVILLE HIRES DFI

The city has three areas it wants DFI to evaluate for redevelopment. One is the dilapidated Prince Charles Hotel; another is where the city wants to build a new ballpark.

DECEMBER 2014

### LEMANSKI LAUNCHES PRINCE CHARLES REDEVELOPMENT

Shortly after DFI's contract ends with Fayetteville, Lemanski and two DFI workers find investors to bid on the hotel at a public auction. The investors ask him to be the developer. They are the only bidder, offering the minimum required. Lemanski later forms a development company with the DFI workers to renovate the hotel after the city expresses no objections to his involvement.

JULY 2015

### DANVILLE FOUNDATION HIRES LEMANSKI

The foundation gives his Watershed Ventures firm \$10 million as part of a 10-year-plan to buy up properties in the River District for redevelopment.

DECEMBER 2015

### DFI MOVES INTO DOWNTOWN DURHAM OFFICE

The office is rented by The Redevelopment Collective, a company managed by Carl Webb, which is running DFI's operations under a no-bid contract. Webb was a partner with Lemanski in Greenfire, and is a principal in a successor company, NSV Development.

AUGUST 2016

### FAYETTEVILLE VOTES TO MOVE BASEBALL STADIUM NEXT TO PRINCE CHARLES

The Prince Charles partners had lobbied for the move, which provides a shot in the arm for what has now become a much larger \$70 million development that includes a city-owned parking deck with a new hotel and office tower on top. The city is paying roughly \$18 million toward the deck and adjacent plaza.

MAY 19, 2017 — MAY 2017

## UNC INTERNAL AUDIT FINDS CONFLICT OF INTEREST, LACK OF DISCLOSURE

The audit reports the sole source operations contract and also finds that an employee had not disclosed ties to 47 other businesses. UNC officials say in an internal memo six weeks later that most of the findings involve a former employee.

JUNE 2, 2017

### LEMANSKI LEAVES DFI

A UNC official later tells a Triangle Business Journal reporter Lemanski left to start a development investment business, Rivermont Capital, that could have posed a conflict for his DFI work. The story gives no indication Lemanski did anything wrong.

FEBRUARY 8, 2018

### QUESTIONS RAISED ON GREENVILLE PROJECT

An alternate on Greenville's Board of Adjustment raises concerns about Rivermont Capital's partnership on a bid to redevelop a former tobacco processing plant. DFI's Jordan Jones, a business partner of Lemanski's on the Fayetteville project, had advised Greenville on redeveloping the site. The bid is not selected.

JUNE 5, 2018

### LEMANSKI CLAIMS CREDIT FOR DURHAM'S ONE CITY CENTER

In bidding on a New Hanover County redevelopment, Lemanski claims a key role in developing One City Center, a 27-story skyscraper nearing completion in downtown Durham. The county went with another bidder. One City's developers later say he had nothing to do with the project beyond selling them the land and keeping a small \$250,000 stake.

MARCH 11, 2019

### NEWS & OBSERVER REPORTS INTERNAL AUDIT FINDINGS

UNC releases the audit, but redacts the names and businesses involved in the cited conflicts of interest. Business records and an interview with the owner of the Durham office building subsequently identify The Redevelopment Collective as the company that paid the rent and ran the office's operations.