

UNC sets new policy, limits for its DFI staff

BY DAN KANE

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A UNC-Chapel Hill program that has drawn conflict-of-interest concerns from UNC system board members is setting up a new policy to limit staff from privately capitalizing on their roles advising communities on redevelopment opportunities for distressed areas.

The new policy for the Development Finance Initiative, a program that began in 2011 within UNC-CH's School of Government, creates waiting periods for part-time staff who also work as private developers. Any staffer who helped a community with a redevelopment plan could not take on the private redevelopment work for three years, and no other staff could take on the work within a year.

Mike Smith, the UNC-CH School of Government's dean, included the policy change in a report to the UNC Board of Governors' audit committee, which is scheduled to discuss the DFI program on Thursday.

"For future projects, in order to avoid perception concerns, the School intends to go above and beyond what the university conflict-of-interest policy requires," Smith said in the report. "For example, for projects that have received DFI assistance, employees will not be permitted to undertake those projects in their private capacity until at

least a year after DFI's analysis has been made publicly available at a public meeting or on a website. For employees who worked directly on the project, the wait period will be three years."

He added the school "will continue to follow the university conflict-of-interest policy and impose other management controls, such as disclosures **SEE POLICY, 4A** to all relevant parties, firewalls, and additional layers of supervision by full-time employees who have no outside interests."

UNC Board of Governors Chairman Harry Smith and several other board members said DFI needs scrutiny after The News & Observer reported in July the ways it had benefited the private interests of former DFI director Michael Lemanski and some of his staff. Board member Marty Kotis said the state auditor should look into DFI.

Lemanski is a Durham real estate developer who became DFI's first director in 2011. At the time, some of his Durham projects were struggling, and UNC School of Government officials had told him they expected him not to use his public position to help his private business.

Over the subsequent five years, Lemanski struck multi-million-dollar contracts with a nonprofit in Danville and with the City of Fayetteville to redevelop properties in

areas that DFI had reviewed. Two of Lemanski's DFI staff are partners in the Fayetteville redevelopment.

Mike Smith, the School of Government dean, said in his report that Lemanski took on the redevelopment role in Fayetteville after an investor group had backed out of buying a dilapidated downtown hotel. By then, DFI had finished its contracted work for the city.

"The hotel owner decided to put the hotel up for auction, and the City was concerned that the hotel would fall into the hands of an irresponsible owner," Smith said.

The city asked DFI to find other investors, which led to a new group taking an interest. But that investment group wanted Lemanski to handle the redevelopment for them. He took on the role after the city waived conflict-of-interest concerns and agreed DFI could continue to work on unrelated projects.

Meanwhile, an internal audit in 2017 found that DFI's operations in a downtown Durham office were being managed by a company founded by Carl Webb, a longtime business partner of Lemanski's, under a no-bid contract. The audit did not find that any of the \$1.5 million paid to Webb's company was misused, but said the contract was a conflict of interest.

Lemanski left shortly



after the audit, and the contract was terminated before the end of the year.

Smith said in his report that the operations contract grew out of DFI's difficulty in managing the rapidly growing demand for its services.

"Starting in 2015, to accommodate steadily increasing demand and a sense that university processes for supporting this work was too cumbersome, the School of Government contracted for services from an outside business to support the work of DFI rather than hiring additional university employees," Smith said. "The School paid that business for its work, most of which was pass-through funding to pay and support people working on DFI projects."

He and other **UNC** officials have repeatedly declined to identify who received the operations contract and that person's

connection to DFI, saying it is a personnel matter not subject to the state's public records law. The state's personnel law does allow agencies to release such information to demonstrate their integrity.

The N&O learned Webb and his company, The Redevelopment Collective, had the contract through the owner of the building where the company had rented space for DFI's office. The space is a block away from the former location of Lemanski's private businesses.

The N&O also found that Lemanski's two partners on the Fayetteville redevelopment - Jordan Jones and Rory Dowling - had used the DFI office as a contact for their private businesses. Both have since removed that contact information, but UNC officials said no policy prevents employees from using their UNC addresses as private business contacts.

Smith did not address

that concern in his report to the Board of Governors. He and other UNC officials overseeing the DFI program declined to be interviewed in advance of the Board of Governors meeting, a School of Government spokeswoman said in an email message.

Smith's report includes testimonials from five state or local officials about DFI's service.

"DFI has, and continues, to provide a significant base of expertise to fill a void at a critical time in the history of our State, counties, and communities," said Jay Gibson, Durham County's director of Engineering and Environmental Services. "As resources become more scarce, stretched by the demand for an ever-growing array of services, it is critical for leaders to analyze and maximize the return on each and every public dollar."

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Michael Lemanski poses in this photo taken in Durham in 2015. Lemanski led UNC's Development Finance Initiative from 2011 to 2017.