

NEW HAVEN INDEPENDENT

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Kerekes: Hire Inspector General

BY **Melissa Bailey** | OCT 27, 2011 11:41 AM

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There's a new inspector in town, and he already has a few top cases to probe: Why did the school district issue a \$5.3 million mortgage to a landlord? And how come so many leases are bypassing legislative approval?

The "inspector" is Jeffrey Kerekes, the sole opponent challenging Mayor John DeStefano's bid for a record-setting 10th two-year term. Kerekes, an independent Democrat, faces DeStefano in a Nov. 8 general election.

In a campaign event Wednesday outside the Board of Education headquarters at 54 Meadow St., Kerekes pledged as mayor to create an Office of the Inspector General inside City Hall to "ferret out corruption and cronyism" in city government.

The position would pay for itself in savings by ending waste, inefficiency, "special deals" and fraud, Kerekes maintained.

He rattled off a list of what he called "special deals" and cases where the city has bypassed the Board of

Aldermen by structuring contracts so they don't need legislative approval.

When a mayor has been in office for 18 years, he charged, "you start to think you can get away with anything—that the rules don't apply to you."

City officials refuted all claims that the city had done anything illegal or given out preferential treatment.

Case 1: Alchemy Bar

Kerekes took aim at Alchemy Bar as an example of a party that's getting a "special deal."

Long Wharf Realty, which leases a space from the Parking Authority at 239 Crown St. that houses the Alchemy Nightclub, owes back taxes. The money is owed for payment in lieu of taxes, because it's a part of a non-taxable property that's being used for commercial purposes.

A 2010 memo indicates the property owner was delinquent on its taxes as far back as 2008.

Kerekes claimed the club owes \$217,536.30 in back taxes, which is what turns up in response to inquiry run in the city tax collector's database. He said while the city foreclosed on hundreds of homeowners last year, it failed to aggressively go after Alchemy through collections or by evicting them from the space.

City spokesman Adam Joseph said Kerekes has his facts wrong: Despite what the database says, the current property owner owes only about \$42,000 in back taxes, which are currently in dispute for a single tax year.

The figure Kerekes gave includes \$175,000 in taxes owed from the early 90s, he said. That debt has been settled, Joseph said—the city sold the rights to the tax liens to a collection agency, which then paid the city up front for the debt.

Far from having a cozy relationship with Alchemy, Joseph said, the city has been cracking down on it and other downtown clubs.

After renting the space to Alchemy for years, the city invoked its rights as landlord in 2010 and [began to address problems there](#).

Case 2: Grand and Olive

Mark Volchek, a higher-up at the HigherOne tech company, who also sits on the Tweed airport's governing board, was granted a \$26,928 tax deferral on a project he developed and owns, the Grand Olive Condominiums at the intersection of Grand Avenue and Olive Street.

Kerekes called the deferral another example of a "special deal": By his reading, the city's assessment deferral program states that condominiums are ineligible for the benefit.

Joseph replied that Kerekes would have been right if the condos were new construction. However, condos created in existing buildings are eligible for the program if the developer is rehabbing a building that has no residential tenants, Joseph said. The tax deferral program, an as-of-right program governed by state statute, aims "to give developers an incentive to redevelop existing, vacant and blighted buildings."

Joseph said the building did just that: "The building on Olive/Grand is now back in productive use, nearing the end of the assessment phase and is an anchor to this important gateway to Wooster Square and Downtown."

Case 3: The "Meadow Street Bank"

When the Board of Education went to find a swing space for the Fair Haven School, it played what Kerekes called a curious role—as both a lending bank and a tenant. The space, at 130 Leeder Hill Rd. in Hamden, is now occupied by the East Rock Global Magnet School and one grade of the Engineering & Science University Magnet School.

Records show that in 2001 the Board of Ed issued a \$5.3 million mortgage to the owner of the property, Leeder Complex, LLC, to convert a former warehouse into a school with gymnasium, classrooms, and a cafeteria.

The district never collected any payments on that mortgage. It continued to rent the space, first from Leeder Complex and then from Titan 2007 #1 LLC, which bought the building in 2007.

"Under what authority and authorization?" Kerekes asked.

Kerekes, who's a realtor, said it's highly unusual for a school district to act as a mortgage lender.

Will Clark, the schools' chief operating officer, defended the arrangement Thursday as "smart business."

He said the district was looking for a swing space for Fair Haven School when it came across the Hamden space. The building needed serious renovations, but the district didn't want to pay to fix it up if the building would then be sold or rented to someone else. So the district paid for the renovations through a mortgage—with the understanding that the mortgage would be forgiven so long as the building continued to be rented to the New Haven Public Schools.

The \$5.3 million mortgage, part of the Fair Haven School construction project, was reimbursed at a rate of 80 percent by the state, Clark said. It was vetted by several public bodies, including the school board and the Board of Aldermen, he said.

"There's nothing hidden, nefarious or secret about it," Clark maintained.

He said the swing space served the district well—and has served as a good, temporary home for at least seven schools over the years.

Case 4: Bypassing The BOA

Kerekes brought up a second aspect of the Leeder Hill deal—the way the lease was structured—as an example of how city government "bypasses" aldermanic approval.

He produced an email from the city finance department asserting that the Leeder Hill lease was a multi-year contract, and as such, needed approval from the Board of Aldermen. The email said rent should be withheld until the board approves the deal.

According to the city charter, all multi-year contracts and no-bid contracts over \$100,000 must get aldermanic approval.

Clark said that email was mistaken. In fact, the district had a one-year lease with options to renew, so it didn't need aldermanic approval, he said. The rent payments were released after the confusion was cleared up, he said.

Clark argued it makes sense for the district to engage in one-year leases, because its space needs change from year to year.

Kerekes pointed out several leases that the city has renewed for four to seven years without aldermanic approval—violating the spirit of the charter, he claimed.

City Hall's top lawyer, Victor Bolden, said the city has violated neither the spirit nor the letter of the law in constructing one-year leases.

"The purpose and spirit of the requirement of Board of Aldermen approval for multi-year contracts is to ensure that taxpayer funds are not committed for more than one fiscal year," he wrote in an email.

One-year leases with options to renew don't commit money beyond one year, Bolden said, so they shouldn't need aldermanic approval.

Contracts that don't go through aldermanic approval still need to meet city requirements, such as checks for insurance and that city taxes have been paid, he said.

Bolden said the city entered into 700 contracts last year.

"It is not efficient, practical or effective to require every City contract to obtain aldermanic approval," he said.

DeStefano campaign spokesman Danny Kedem dismissed Kerekes' idea of creating an inspector general's office.

"First Mr. Kerekes wants to make dramatic cuts to police, fire department, and education and now he wants to create a new branch of government that provides zero services to residents. We can't afford these tea party type policies."

Comments

posted by: Noteworthy on October 27, 2011 12:31pm

My observations:

1. DeStefano Mouthpiece Kedem: Your boss, John DeStefano whacked 16 police officers - the youngest on the force, some with very young babies and a new mortgage this summer in what can only be described as "up yours" moment to the police union. DeStefano also closed a fire house. DeStefano also laid off school personnel this summer. Your tired refrain of tea party and birther comments are lies, redundant and tired.

2. The BOE Bank subordinated its mortgage twice - moving from first lien to last lien. If there was adverse action at any time, this would have effectively prevented the city from protecting its investment through foreclosure. Will Clark's comments are either lies or are extraordinarily disingenuous.

Further, it is highly unusual for a government agency to be a bank for a developer who can't get a loan to fix up his own property even with a valuable and expensive lease in his hand. That means it was always a dubious deal with a guy - Aaron Hochman - tax cheat and mortgage defaulter extraordinaire. If you can't get a loan with a \$70K to \$80K per month rent, your credit-worthiness has to really be bad.

3. Additionally, Clark's real estate expertise also means taxpayers here are paying PILOT payments to Hamden - some \$30K or more.

4. Alchemy Club - The tax liens were sold for a bargain robbing the city then; and now, even if there is a dispute, the taxes have to be paid. If they are not, foreclose. DeStefano didn't think twice about foreclosing on 429 homeowners this year for a lot less than \$42K

And further - why is the data base not correct if in fact, that is true? One can never tell with this administration.

5. Single year leases vs multi-year leases - this is not done to be efficient and it certainly has not saved us any money. It was done to avoid aldermanic oversight and explanation. Period. Not every contract needs BOA approval - the charter is clear about this. But multi-year leases and swing spaces that lease facilities for more than a decade (that's 10 years Kedem/Joseph) do need aldermanic approval.

This is about proper oversight and weeding out the kind of excesses and special deals the well heeled and well-connected always seem to get in New Haven. Those people can then be counted on to bail out DeStefano when he gets in trouble so they can keep the gravy train rolling.

posted by: William Kurtz on October 27, 2011 12:46pm

I am not a New Haven taxpayer and I don't have a dog in the fight, so to speak, but I am curious about 'case 3' which reminds me a lot of the bizarre 'deal' former-Governor Rowland tried to set up to bring the Patriots to Connecticut. As I remember, the state would pay to build a brand-new stadium, and Robert Kraft, owner of the Patriots, would earn basically all of the money except for 10% of the ticket sales which would come back to the state.

So the city of New Haven—or the state, whoever—pays \$5.3 million for renovations to a privately-owned building which puts it in shape to rent. Then, they pay the private owner to rent it. Ultimately, when they stop renting it, the owner of said building has a renovated building that he's basically sat back and collected checks on for all of this time. Do I have that right?

Somehow I doubt Mayor DeStefano is unique about this kind of thing. Politics aside, there might be some reason why either (or both) of these arrangements makes sound financial sense but I don't see it. I welcome enlightenment.

posted by: New Haven Taxpayer on October 27, 2011 1:06pm

@Noteworthy,

You have your facts wrong regarding closing a firehouse. There are no firehouses being closed in New Haven. There are plans to remove Engine 8 from service and to provide instead a medical response unit. The Whitney Avenue fire house will remain very much in service and will still have a fully-functioning fire engine there. The plan is based on recommendations from FRAC, led by Kerekes. Credit where credit is due!

posted by: anon on October 27, 2011 1:25pm

20 second summary:

Kerekes: "Investigate all transactions in a transparent way, look at nitty gritty contracts that no other citizens are willing to."

Kedem/DeStefano: "You can't criticise us. If you dare to question any contract, you are a tea party, birther, Gingrich era, Rik Perry, yak. Also, let's use keep using people who head the public school system to campaign for the Mayor at \$200/hour"

posted by: streever on October 27, 2011 1:40pm

New Haven Taxpayer

The FRAC report was compiled by Mayoral appointed consultants, and simply submitted to Kerekes and others for "oversight". They were not allowed to edit or change the report.

Accuracy where accuracy is due :)

posted by: Noteworthy on October 27, 2011 2:15pm

New Haven Taxpayer:

I see we will need to use shock therapy on the DeStefano crowd to encourage them in the pursuit of truth and disclosure.

1. FRAC made no recommendations. None. It simply passed on a report that it had very little to do with except to push for the study and then act as a conduit to transmit it to the aldermen. In fact, DeStefano and the finance department controlled the contents and made sure it was watered down.

2. FRAC is not, nor was it lead by Kerekes. He was a member.

3. I'm glad you didn't dispute that DeStefano has fired young police officers for which we just paid \$100K to train; custodians, school personnel, teachers, aides and more.

Let me know when I can hook you up. The truth will set you free.
