



August 6, 2007

Jacky Morales-Ferrand, Director
Housing & Neighborhood Development
201 W. Colfax Avenue, Dept. 204
Denver, CO 80202

Dear Ms. Morales-Ferrand:

I am in receipt of an amendatory agreement to contract GE71078 between the City and County of Denver and SEEDCO Financial Services, Inc. I have some serious questions and reservations about this contract that I would like to have addressed before I sign it.

- This program duplicates services already being provided by the City. The City has and continues to develop sources of public *and* private financing for worthwhile projects. Why duplicate and privatize a function already being performed by the City at less cost. And related to that, does this mean that the City will no longer provide this service and will these efforts in MOED cease to exist? If so, will this result in a budget reduction to MOED to reflect such a change?
- Moreover, this duplication comes with a significant price-tag. The administrative costs of the SEEDCO program are substantial. \$455,000 for July 1, 2007-December 31, 2007 - that is \$455,000 over six months! I find that staggering and not at all a prudent use of either City money or CDBG money, particularly because included in that six-month overhead are items such as \$37,500 in travel expenses for SEEDCO New York City employees to travel to Denver to help administer this program. With the City's budget under revenue constraints and CDBG funds finite, how can we justify such hefty and seemingly unnecessary overhead expenditures that may detract from needed investment in development projects?
- The agreement targets 8 loan projects and calls for the creation of 154 new jobs by the end of this year. Given that the bulk of the CDBG funding is just now being requested, is it realistically possible to meet these goals? Have any of these projects come online? Have any jobs been created to date? Will this program divert needed resources from the City's ongoing efforts to target these particular projects and create these jobs?

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- I also have serious concern with regard to the management of SEEDCO in Denver. I have learned that the City employee, Mr. Peter Chapman, primarily responsible for putting this program together is now an employee of SEEDCO and the Executive Director of this program. I also understand that Mr. Chapman requested an advisory opinion and waiver of the City Ethics Code in February of 2007 from the Denver Board of Ethics regarding his possible employment as Executive Director. The Board of Ethics apparently found that indeed Mr. Chapman's employment would violate the City Ethics code, however the Board granted the requested waiver. I am very concerned about the appearance to the citizenry of a conflict of interest related to his employment and therefore the efficacy or value of the program as a whole and the City's development efforts.
 - ✓ This employee was primarily responsible for the creation of the program and its most significant advocate before City Council.
 - ✓ This employee served on the selection committee that selected SEEDCO to operate the program.
 - ✓ This employee worked on arranging contracts between the City and SEEDCO.
 - ✓ This employee was in position to benefit from his work for the City in garnering this employment.

- I am not questioning whether Mr. Chapman did anything wrong or unethical, I am only pointing out that to the citizenry these kind of questions will arise and can give further credence to the skepticism about government – that programs are developed to benefit insiders rather than the public - that is rampant in our society. Newspaper headlines out of Washington, DC as well as our own state capitol contribute to that perception. We don't need to assist that perception. As a part of this, I again question the value or need for this duplicative program.

Additionally, I am returning the contract for a minor correction. The amended contract requests that \$2,563,000.00 be added to the original amount of \$437,300.00 which should total \$3,000,300.00. The contract amendment shorts the request by \$300 and states that the new total is \$3,000,000.00. This correction needs to be made.

I look forward to your response to my concerns.

Sincerely,

Dennis J. Gallagher
Auditor

cc: John Hickenlooper, Mayor
Michael Hancock, President of City Council
Jeanne Faatz, Chair Finance Committee