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**How state turned $1 MIL. into $89,000; Recovery of errant funding from Blago years closes book on 'mistake'**

By Dave McKinney

Springfield bureau chief

SPRINGFIELD - State efforts to recoup $1 million that impeached ex-Gov. Blagojevich said he errantly gave to Loop Lab School yielded Illinois taxpayers a paltry $89,000, Illinois Auditor General William Holland disclosed Thursday.

That finding, which triggered new questions about the role Gov. Quinn's current chief of staff had in the Loop Lab School grant, was part of a broader analysis by Holland of how the Illinois Commerce and Economic Opportunity Department did a poor job of keeping tabs on some of the $1.5 billion in grants it oversaw.

Some of those spending initiatives administered by the department, as well as other state agencies, have become focal points of an ongoing federal investigation into state grants secured by at least four state legislators, the Chicago Sun-Times reported earlier this month.

The $89,687 the state finally recovered in March closes the book on the Loop Lab School debacle, which stands as perhaps the most ill-conceived state expenditure from Blagojevich's six scandal-tainted years in office.

"The Blagojevich legacy is living on," said Rep. Jack Franks (D-Marengo), who pushed for an earlier Holland audit on the Loop Lab School grant.

Shortly after Pilgrim Baptist Church burned in early 2006 - as Blagojevich was immersed in a re-election bid and looking to strengthen his position with South Side voters - he immediately promised $1 million in state assistance toward rebuilding the iconic South Side church. But in 2008, the Sun-Times first reported that money instead went to Loop Lab School, which rented space from the church at the time of the fire. Blagojevich characterized that diversion as an "honest mistake" made by aides.

The school, which used the state money to buy space for a school in a high-rise at 318 W. Adams, was run by Chandra Gill, a onetime felon whom the Rev. Jesse Jackson Sr. and others convinced Blagojevich to pardon in 2007. That step was necessary before state grant dollars could flow to her organization.

The state's recovery of only 9 percent of the original grant to Gill's organization - a process undertaken by the Commerce and Economic Opportunity Department and Attorney General Lisa Madigan - came despite the court-approved sale last January of the former school property for $750,000.

Most of the proceeds from that sale wound up being eaten up to pay off a portion of a $305,000 loan Loop Lab School took out from Republic Bank, along with $160,000 in unpaid condominium association assessments, nearly $80,000 to fix out-of-code construction undertaken by the school, a $43,219 federal tax lien and various city and county taxes, court documents show.

"We made every effort to recover the state's money. But the bottom line is this grant should never have been given in the first place, and it's yet another example of the toll former Gov. Blagojevich's reckless actions have taken on the state," Madigan spokeswoman Natalie Bauer said.

Bauer said Madigan's office successfully negotiated down unpaid condominium assessments and the claim Republic Bank, as a mortgage holder, had sought from Loop Lab School's assets. The bank wound up getting $50,000 from the sale proceeds.

"Unfortunately, due to a number of factors, including delays in the process caused by the grantee, expenses related to the property in this case mounted. As a result, the amount ultimately recovered was sharply reduced," Mike Claffey, a Commerce and Economic Opportunity spokesman, said in a prepared statement that defended his agency's "grants management and monitoring responsibilities."

The 2006 grant agreement his department completed with Loop Lab School was signed by Jack Lavin, a one-time Blagojevich appointee who then headed the Commerce and Economic Opportunity Department and now is Quinn's chief of staff.

Sen. Matt Murphy (R-Palatine) said the auditor general's report showing how little the state wound up recovering from Blagojevich's grant blunder necessitates answers from Lavin.

"It is a serious question that I think deserves an answer: Why were you willing to go ahead and authorize this $1 million with red flags flying everywhere?" Murphy said, referring to Lavin. "It was found to be an improper grant, and we get $89,000 off $1 million in taxpayer dollars. Can you explain yourself? I think it's a reasonable thing for taxpayers to ask and frankly for the governor to ask."

Quinn's office did not immediately respond to Murphy's questions about Lavin.