

SAN FRANCISCO'S CESSPOOL OF CORRUPTION COVERS MOST OF CITY HALL

SFPUC chief charged with accepting bribes in alleged City Hall corruption scheme
By Megan Cassidy

San Francisco Chronicle logo SFPUC chief charged with accepting bribes in alleged City Hall corruption scheme

Federal prosecutors have charged San Francisco Public Utilities Commission chief Harlan Kelly for allegedly accepting bribes from a contractor — taking international trips, free meals and jewelry in exchange for insider information on city contracts.

Harlan Kelly resigned as head of the S.F. Public Utilities Commission shortly after being hit with a criminal complaint.

The U.S. attorney's office announced the criminal complaint against Kelly on Monday, shortly after the FBI served a search warrant and removed boxes from his San Francisco home. Kelly resigned as general manager Monday, according to a statement issued by Mayor London Breed.

Kelly is married to City Administrator Naomi Kelly, who oversees more than two dozen city departments.

The charge is the latest development in a still-expanding corruption scandal at City Hall that began with the arrest of former Public Works Director Mohammed Nuru in January. The U.S. attorney's office charged Nuru with fraud and with lying to the FBI. Since his arrest, a slew of others, including city contractors, have also faced criminal charges for allegedly participating in schemes to get favorable treatment on contracts. Multiple city department heads have been forced to resign.

The SFPUC, which Kelly helmed since 2012, has around 2,300 employees, an annual operating budget of roughly \$700 million — and issues a dizzying number of contracts for projects tied to San Francisco's water, power and sewer systems.

Federal officials alleged that Kelly engaged in a "corrupt partnership" with Walter Wong, a construction company executive and permit consultant who ran or controlled multiple entities doing business with San Francisco.

Wong pleaded guilty to conspiracies to commit honest services fraud and money laundering and has been cooperating with the government, prosecutors previously said.

"Public officials owe their honest services to the people of San Francisco," U.S. Attorney David Anderson said in a statement Monday. "Bribery scams undermine our faith in city government. Our investigation into City Hall corruption will continue."

"The allegations detailed in the federal investigation conducted by the U.S. Attorney's Office are disturbing and unacceptable for anyone serving in our government, let alone the leader of one of our largest departments," Breed said in a statement.

SFPUC Deputy General Manager Michael Carlin will now serve as the department's acting general manager, Breed said, adding that she asked the SFPUC's commission to begin a national search for a permanent replacement. SFPUC President Sophie Maxwell was not immediately available for comment.

FBI Special Agent in Charge Craig Fair said the allegations against Kelly and the nine others embroiled in the case were "extremely troubling."

"Through the course of this ongoing investigation, the FBI has uncovered a pattern of criminal activity committed by those in positions of trust," Fair said in a statement, urging any others with information on this or any other public corruption case to contact the FBI.

The newly unsealed complaint alleges a long-running relationship between Wong and Kelly, in which Kelly was allegedly given multiple international trips, free meals and personal car service. One of these trips included Kelly's 2016 family vacation to China and Hong Kong, in which Wong either paid for or reimbursed Kelly for expenses involving airfare, hotels, meals and jewelry.

Those expenses included a \$2,011 charge at the Mira Hotel in Hong Kong, in which Kelly and his wife reportedly stayed in one room, their children and their grandmother in a separate room, and Wong in a third.

Kelly allegedly acknowledged the gifts in encrypted messaging to Wong, writing, "Thank you for the best family vacation ever! A little something for everyone!" the complaint states.

In exchange, investigators said, Kelly handed Wong numerous unfair advantages in his business ventures, including a multimillion-dollar bid to upgrade city streetlights. Federal officials said Kelly delivered Wong confidential information, spoke to him on numerous occasions before the project was bid and engineered at least one delay in the process that would benefit Wong.

Wong ultimately withdrew his bid due to multiple contract changes, federal officials said. After bidding for that contract ended, officials said Wong provided work at Kelly's personal residence at a substantial discount.

Wong reportedly provided evidence that he gave Kelly these benefits because of Kelly's position at the SFPUC, the complaint states.

Kelly's attorney, Brian Getz, told The Chronicle that his client never helped Wong win a contract with the SFPUC and stressed that Wong did not receive the contract and that Wong "never received a benefit that anyone else wouldn't have gotten."

"Everything that Harlan did was within the spirit and parameters of his work," Getz said.

The FBI's raid of Kelly's home Monday morning "revealed absolutely nothing that supports their case," Getz added.

Kelly is charged with one count of honest services wire fraud, which carries a maximum sentence of 20 years in prison and a \$250,000 fine. He is out of custody and expected to make his initial appearance in San Francisco's federal court on Dec. 8.

Getz said there will be no deals made in Kelly's case, "because this case is headed towards a jury trial."

"There's no jury that is going to convict him of anything," Getz said. "There's no public servant in San Francisco that has served as diligently and loyally as Harlan Kelly, and that will be presented as part of the trial defense."

Kelly's wife, Naomi Kelly, oversees 25 different city departments, divisions and programs, and was previously Nuru's supervisor.

Naomi Kelly is not accused or directly named in the complaint, though prosecutors make note of the couple's marriage and her lofty post with the city.

The complaint also notes that the FBI interviewed Naomi Kelly in June about expenses from the Hong Kong trip.

Naomi Kelly reportedly told the agents that she paid Wong "a lot of money for the trip, and brought lots of cash on the trip to give to Rose Pak, a San Francisco political activist who they visited as part of the trip," the complaint said.

However, a search of bank records revealed only one \$500 withdrawal from the Kellys' accounts in the weeks prior to the March 2016 trip, and a \$400 withdrawal from Naomi Kelly's mother's account, investigators said.

"Further, investigators have found records showing that the Kellys' out-of-pocket expenses via their own credit or debit cards while in Hong Kong and Macau totaled only \$130.97, other than a charge paying for a portion of their hotel bill," the complaint states.

Naomi Kelly's attorney, Martin Sabelli, as well as a spokesman for the City Administrator's Office, declined to comment.

Harlan Kelly has been a target in the federal government's investigation since at least this spring. On June 15, the U.S. attorney's office issued a subpoena to the SFPUC that named Kelly individually demanding numerous contracts the commission awarded to several companies and other information.

Some of those contracts have been linked to alleged schemes that traced back to Nuru in investigations by the FBI and the city attorney's office.

Tyler Gamble, a spokesperson for the SFPUC, said officials are not aware of any additional subpoenas or searches at the agency other than this one.

City Attorney Dennis Herrera said his office's internal investigation into Kelly and others — including those not criminally charged — is ongoing.