

More HUD Community Development Duds



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Local officials, like their federal and state counterparts, spend other people's money. Policymakers are naturally unlikely to spend other people's money as carefully as they would their own. This situation is exacerbated when local officials spend money obtained from federal taxpayers. At least when local taxpayers foot the bill, they have an incentive to keep an eye on how their money is spent. That incentive is largely nonexistent when the money comes from Washington.

HUD community development programs illustrate what happens when the federal government severs the relationship between local officials and local taxpayers. Originally targeted to large cities in decline, community development funding is spread widely to communities rich and poor, large and small.

Local officials love these programs because they amount to a [free lunch](#). As a result, they lobby Washington hard for these subsidies, which means federal policymakers generally only hear wonderful tales of the "economic growth" and "job creation" fostered by the programs. However, a Cato essay on HUD [community development programs](#) explains that in addition to complexity and wasteful bureaucracy, these programs are susceptible to financial abuses.

Recent stories in the news provide further evidence.

First, years of mismanaging federal community development funds have caught up to the City of Buffalo. The [Buffalo News](#) reports that a HUD inspector general audit says the city "could not provide assurance that more than \$20.1 million in transactions was properly accounted for." According to the article, the audit findings are not surprising:

An investigation published in *The News* in 2004 found the city had frittered away much of its block grant money through parochial politics and bureaucratic ineptitude.

More than half the spending went to "soft costs" that include covering bad loans, paying city salaries and subsidizing an overblown network of neighborhood agencies, *The News* found. Relatively little went to brick-and-mortar projects, and what was spent to revitalize downtown and neighborhoods was haphazard, with money sometimes going to risky and futile projects.

The mayor and Common Council failed to make major reforms in the program in recent years, and problems have persisted. Two years ago, a HUD monitoring report found continued shortcomings that included too much spending on bureaucrats, questionable financing for upscale housing developments and sloppy fiscal management of several programs.

Next, [LA Weekly](#) reports that the City of Los Angeles plans to give \$1 million in federal community development funds to the global architecture firm designing the downtown's proposed NFL football stadium:

Gensler plans to move from Santa Monica to downtown L.A., where it will use the \$1 million in federal community-development block grant funds to create a hip, new atmosphere for its relocated employees at the "jewel box," a three-story building nestled between two skyscrapers at City National Plaza.

Unfortunately, the "hip, new atmosphere" paid for by federal taxpayers probably won't be the "job creator" that city officials are claiming:

[Mayor] Villaraigosa and City Council members since February have claimed that enticing Gensler from Santa Monica to downtown L.A. is a job creator. But that's debatable. Some temporary jobs will be created for the jewel box renovation, but Gensler is moving its offices just 20 miles. Many economists would describe L.A.'s action as merely shifting jobs within an intricately intertwined economic area.

A HUD official called the situation “entirely healthy.”

Finally, HUD recently informed the City of Montebello (California) that it had uncovered 31 violations regarding the city’s use of HOME program funds, which are to be used for affordable housing. [According to the Whittier Daily News](#), the report “was so damning it brought interim city administrator Peter Cosentini to tears”:

Last year, HUD demanded that Montebello repay \$1.3 million because the city gave a developer HOME money to help build a housing project with affordable units and reported to the federal agency the project was complete, but construction hasn’t started. And a key document submitted to HUD appeared to have been forged, according to the report.

In February, HUD notified city officials that Montebello must also repay nearly \$900,000 it used to purchase another parcel of land. The city failed to give HUD needed documents on the property acquisition, including an appraisal, documentation of expenditures and current ownership, according to a Feb. 18 letter from [HUD official] Vasquez to the city.

Cosentini responded in writing, saying city staff has been sent to training as recommended by HUD. Montebello is also conducting an internal investigation into the possible document forgery. The city’s internal investigation of the \$1.3 million has been slowed because the developer isn’t cooperating and is “stonewalling” city staff, he wrote. Cosentini also asked for more time to repay the money.

But the city missed a March 1 deadline to submit a repayment plan, according to a letter from Vasquez. And HUD will seek an additional repayment of \$2.7 million, Cosentini wrote in the memo.

Take heart federal taxpayers – Montebello city bureaucrats are being “sent to training” per HUD’s recommendation!

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