

The Half-Billion-Dollar Bust

Federal aid poured into Buffalo for 30 years to combat poverty and blight, but city officials wasted much of the opportunity it offered, putting politics ahead of the city's poor.

Nov. 14, 2004

By James Heaney
News Staff Reporter

City Hall squandered much of the half-billion dollars in federal aid it received over the past 30 years to revitalize its downtown and neighborhoods and recharge its ailing economy, a Buffalo News investigation has found.

Buffalo gets more federal Community Development Block Grant aid per resident than all but one city in the country because of its pervasive poverty. But three decades and \$556 million later, there is scant evidence of the federal government's largesse.

"When you consider the millions and millions of dollars that have flowed into this city over the years and you look at the conditions in the neighborhoods, it's a disgrace. It's the shame of this city," said Henry L. Taylor, director of the Center for Urban Studies at the University at Buffalo.

City Hall frittered away much of the money through parochial politics and bureaucratic ineptitude, the News found.

More than half went to "soft costs" that include covering bad loans, paying City Hall salaries and subsidizing an overblown network of neighborhood agencies, the News found.

Relatively little has gone to brick-and-mortar projects. What has been spent to revitalize downtown and neighborhoods, The News found, has been haphazard, with money sometimes going to risky and futile projects.

"We receive the money because we have all these poor people," said Masten District Council Member Antoine M. Thompson, "but where are the hard projects for housing and economic development in the neighborhoods in the heart of Buffalo? We're way off the mark."

City Hall politicians don't dispute that politics has undermined the program, although they note reforms are under way.

North Common Council Member Joseph Golombek Jr. portrayed city lawmakers as "pigs at the trough" in the way they doled out block grant funds.

Mayor Anthony M. Masiello's take: "A politically motivated system trying to please everybody -- to our detriment."

To assess the city's management of the block grant program, The News interviewed more than 40 people, ranging from regulators to elected officials to employees of community-based organizations; compared Buffalo's spending practices with programs across the nation; analyzed some 760 business loans the city made; and reviewed more than 2,000 pages of documents related to the program obtained under state and federal Freedom of Information Act laws.

Here are The News' key findings:

-- Block grant money has been used to pay some or all of the salaries and benefits of a sprawling City Hall bureaucracy -- more than 230 employees as recently as a year ago and an estimated 115 today -- at about \$100 million over the life of the program.

-- Another approximately \$75 million has gone to sustain an inefficient patchwork of community-based organizations. At its peak, some 70 housing and human service agencies received money, with little regard to their effectiveness.

-- Nearly 20 percent of block grant funds, totaling \$38.5 million, have been spent over the past decade repaying risky loans to developers who defaulted, as well as money the city lent itself through the Section 108 loan program backed by block grants.

-- Buffalo's block grant spending is out of line with practices in other cities. Buffalo spends more on "soft costs," primarily repaying the federal government for bad business loans and the salaries of City Hall and neighborhood agency employees, and less on housing and public improvements.

The program's problems are primarily the fault of the Griffin and Masiello administrations, the Common Council and the City Hall bureaucracy, The News found.

"The gross mismanagement of this program goes back at least a generation," said Steven Polowitz, an attorney familiar with the program as both a developer and director of housing agencies that have received block grant funds.

The problems have been compounded by lax oversight from the U.S. Department of Housing and Urban Development, which long identified problems but only recently pressed for change, The News found.

The city, with belated pressure from HUD, recently started reforming the program under a new housing and development chief, Timothy E. Wanamaker, who has trimmed jobs and taken steps to depoliticize decisions, target spending and better monitor spending.

"Wanamaker is trying to make changes, but he's got a whole lot of history of wasting money to get around," said Kim Harman, former executive director of Eastside Pride, a grass-roots organization focused on housing and other quality-of-life issues in the inner city.

City Hall politics faulted

While not an anti-poverty program per se, block grant funds are allocated on a formula for poverty and other signs of distress.

Some 1,175 communities received \$4.3 billion this year, with Buffalo getting \$19.6 million -- nearly as much as cities like Dallas and Phoenix with four times the population, and more than what Rochester and Syracuse get combined. Only St. Louis got more aid per capita than Buffalo.

Localities get wide latitude in how to spend the money to improve the lot of low- and moderate-income residents, remove slums and blight, and finance general public improvements, ranging from community centers to sidewalks.

A growing number of cities focus their block grant dollars in select neighborhoods so there's enough planning and money to produce tangible results, Wanamaker said.

"You want to see that you made a difference at the end of the day," he said.

For example, Wheeling, W.Va., used block grant funds to help transform an old warehouse district into offices and stores.

St. Paul, Minn., used block grants to buy and rehabilitate low-income apartments in a neighborhood with 38 apartment houses within four blocks.

Philadelphia bought and cleaned property where it built 176 houses, reconfigured streets and created a park.

Over the years, Buffalo has spent its aid on a variety of capital projects: The restoration of the Market Arcade; construction of community centers, including Father Belle and Gloria Parks; roads, sewers and other infrastructure that paved the way for upscale housing at Erie Basin Marina; and development of the New Buffalo Industrial Park off Dingsens and William streets, now home to 17 companies.

"You can look around and see some of the benefits of this money. The problem is, you don't see anything like \$600 million worth of results," said Harman of Eastside Pride.

A big part of the problem is what Wanamaker and others described as "scattershot" spending.

"There's been a complete and utter lack of targeting," said Polowitz. "It's been shoot the money out there, get it to as many different interest groups as possible for whatever political ends you want to serve."

Golombek, chairman of the Council committee that reviewed the mayor's proposed block grant budget earlier this year, said the situation is improving. But Golombek acknowledged "the Council and administration have collectively screwed up in the past," in part by using block grant funds for pork barrel.

Former University Common Council Member Betty Jean Grant, for example, supported block grant money for a computer literacy program where her son-in-law served as executive director.

She also helped obtain funding for an AIDS organization that she founded and employed her daughter. Her colleagues on the Council, and the administration, went along.

Grant, who lost re-election to the Council last fall, only to win election to the Board of Education this spring, defended funding the two organizations as "absolutely justified."

Paying for jobs

The mayor and Council typically used upward of 20 percent of the block grant budget to underwrite City Hall jobs, particularly as city finances tightened.

They used the block grant money to help pay building inspectors, fund retirement benefits, and for years cover what many considered a bloated bureaucracy at the Buffalo Urban Renewal Agency and Buffalo Economic Renaissance Corp.

"You're not supposed to be able to use block grant money to replace existing city responsibilities," said Scott Gehl, who is involved with two community-based organizations that receive block grant funds.

Masiello defended the use of the funds to cover city costs.

"We're a city with shrinking resources," he said. "We became more dependent on block grant funding to pay for programs."

When Wanamaker took over, the city was using block grant funds to pay all or part of the salaries and benefits of 234 employees. Since then, 29 jobs were eliminated and block grant funding cut off to 84 positions.

"It didn't hurt us in the efficiency of the organization," Wanamaker said. "We had fat."

Some, including Masten Council Member Thompson, want more cuts.

"We're still using a lot of dollars to reimburse City Hall salaries," he said. "The more money you get out of City Hall and the more you get it into the the neighborhoods, the better off you'll be."

Many agencies struggle

Buffalo in recent years typically earmarked \$4 million to \$5 million of its annual block grants for housing and human service agencies, which administer programs primarily geared toward youth, seniors and current and prospective homeowners.

It was "pretty absurd," said former Rep. John J. LaFalce, who questioned the city's use of block grant funds while in Congress.

There are now 40 agencies, down from 70.

"Some of these agencies are literally a couple of blocks from each other. It's ridiculous," said Golombek. "Most of our groups have not been effective."

There are many reasons why.

Erie County and the United Way, which along with Buffalo provide most of the funding for area public services, first set goals for what they want their spending to achieve. The county's priorities, for example, include improving school performance and senior citizen nutrition. They then require agencies to compete for funding to provide the programs. Agencies are later monitored and evaluated to determine their effectiveness.

Wanamaker said monitoring was "almost non-existent" when he came to Buffalo in June 2003, a situation he's trying to improve.

"If you do well or if you do poorly, or if you don't submit your paperwork at all may not affect the kind of support you get the next year," said Gehl.

What monitoring there was, primarily involving housing agencies, raised questions about the effectiveness of many agencies.

Take, for example, 13 housing agencies that, until this year, were funded by both the state and city. An analysis of reports submitted to the New York Division of Housing and Community Renewal showed the agencies don't have much to show for the more than \$1 million they receive annually.

Over a three-year period ending June 30, 2003, state records show the 13 agencies combined got approvals annually for an average of about 210 mortgages and 190 home improvement loans, most of them for repairs of \$5,000 or less. That's roughly one mortgage or repair loan every other week for each agency.

Moreover, a handful of agencies were responsible for most of the activity. Few agencies reported other activity that would have helped their neighborhoods, such as public improvements, business assistance and crime prevention programs.

"You have a lot of expenses for no real noticeable improvement in the communities these agencies are supposed to serve," said Michael K. Clarke, who works with numerous housing agencies as program director of the Buffalo office of the Local Initiatives Support Corp.

The agencies and City Hall share the blame, The News found.

Until recently, agencies engaged in mostly half hearted efforts to collaborate to reduce duplication and make the most of their increasingly tight budgets.

"It seems to be a matter of turf that I don't understand. It's the way it's been for 30 years," said Paul P. Brunner, executive director of Black Rock-Riverside Neighborhood Housing Services.

With so many agencies, funding from City Hall has been spread thin, resulting in lean budgets and a constant churning of staff. One of the agencies, Hispanics United, for example, had five different executive directors in the past six years. Kensington Bailey Neighborhood Housing Services had four in five years.

The turnover extends to rank-and-file staff.

"It's hard to attract and retain qualified, hard-working individuals when the pay is so low and benefits aren't there," said Marlies Wesolowski, executive director of the Lt. Col. Matt Urban Human Services Center.

Numerous agencies also complain about City Hall's changing directives and bureaucratic bungling. Especially maddening to the housing agencies has been the on-again, off-again loan moratoriums. Human service and housing agencies said they've been financially hurt by the city's failure to pay them on time and shortchanging them by contracting for 12 months of services but only paying for 10.

The city has, however, been working to improve things. Five housing and 17 human service agencies were dropped in the past year alone from the city's block grant budget. More cuts are coming.

"We simply can't fund all the groups and programs we have in the past," Wanamaker said.

How Buffalo compares

The News compared spending here against the national average and also 19 communities whose block grant allocation is closest to Buffalo's, including Pittsburgh, Cleveland and Boston. The figures are from 2001-02, the last year that comparative data was available.

By either benchmark, Buffalo spent proportionately more for administration and planning and for repaying loans backed by block grants. Buffalo also spent more than average to underwrite human service agencies.

Buffalo spent less on housing and public improvements.

The city's spending was in line with the national averages and similar big cities when it came to economic development and acquisitions, which include the purchase and demolition of derelict housing.

The News analysis is in line with a study done in 2002 at the request of LaFalce, when he was still in Congress. The city, over four years ending with the 2001-02 fiscal year, spent 51 percent of its block grant funds on soft costs, versus 34 percent nationally, the report said

"Too much was being used for personnel costs, as opposed to brick, wood and mortar," LaFalce said.

Not only has Buffalo been out of step with spending practices elsewhere, it has violated HUD regulations at times.

Block grant recipients can spend up to 15 percent of their annual allocation on human services and 20 percent on administration and planning. The city exceeded the cap on public services in 2000 and overspent on both that and administration in 2002.

To compensate, Buffalo must reduce spending on administration -- City Hall salaries and human service agencies -- over the next three years by \$3.2 million. HUD is allowing the city to keep the savings, however, and spend it elsewhere in the budget.

Lax federal oversight

HUD for years identified problems with Buffalo's block grant program: poor management of projects; deficient accounting systems; inadequate monitoring of agencies; insufficient citizen participation; faulty planning.

City Hall was slow to react. The problems were cited in one audit after another.

The city suffered from a "lack of management expertise" compounded by frequent turnover in commissioners overseeing the program, said Steven T. Banko III, field office director of the Buffalo HUD office.

"The process itself was fundamentally broken. The whole thing was in shambles," he said.

Masiello acknowledges problems; former Mayor James D. Griffin did not return calls seeking comment on the program.

Wanamaker said HUD bears some responsibility. Federal officials for too long "looked the other way," he said.

"HUD was almost a partner in the way we operated. You saw the same audit findings year after year and nothing was done about it," he said.

Banko attributes HUD's newfound aggressiveness to a leadership change in the Buffalo office and the seriousness of the city program's problems.

"If we keep looking the other way, to think the course will improve, is naive at best," he said.

Many familiar with the block grant program, including Banko, say Wanamaker has made some headway. For example, a list of deficiencies identified in annual audits has been trimmed in the past year from two dozen to eight.

"Wanamaker has shown a willingness to bite the bullet," said Banko, who was Masiello's chief of staff during the mayor's first term, leaving in 1998 to take a position with HUD.

Despite the generally good reviews for Wanamaker, some fault him for poor communications and unilateral decision making.

And there's general agreement that serious problems remain.

"The city has a long way to go," said Taylor of UB.

Banko agreed, calling Buffalo's political culture an obstacle.

"The problem with Buffalo is that everybody wants things to change -- except those things that touch them," he said.

e-mail: jheaney@buffnews.com