



MINNEAPOLIS PUBLIC HOUSING AUTHORITY

January 17, 2003

MEMORANDUM TO: Mayor R.T. Rybak
City Council President Paul Ostrow
City Council Members

FROM: *CMcC* Cora McCorvey, Executive Director

SUBJECT: Operating Subsidy Shortfalls For Public Housing

Controversy is growing in Washington and across the country throughout our industry as more details become known about a HUD mismanagement debacle that may cost MPHA and Minneapolis millions of dollars in operating subsidy for public housing operations in just this year and next alone. I have attached a copy of a letter that was sent to Congressman Sabo and will also be sent to Senators Mark Dayton and Norm Coleman. This correspondence outlines the details as we have them at this point on this very serious issue. Briefly:

- (1) HUD originally told Congress and housing authorities that Federal Fiscal Year 2002 Operating Fund Program appropriations would be adequate for 100% funding. Due to what HUD itself confessed were "inadvisable management practices" and "poor accounting systems" (see attached letter to housing authorities from Assistant HUD Secretary Michael Liu) HUD discovered it had grossly miscalculated its operating subsidy needs. Compounding the problem is the fact that HUD did not communicate the errors caused by their mismanagement until months later and have made their problems worse by poor communications thereafter. *The HUD miscalculation has created a \$250 million shortfall.*
- (2) In addition to this shortfall we still do not yet have FFY 2003 appropriations approved by Congress. On both issues, HUD is giving us preliminary information that concerns us in fearing that our operating subsidy funding for this year and next year may be short if not far short of our actual needs at 100%.

MPHA will continue to keep you informed. Mayor Rybak will also be taking the most current information we have available with him to the National Conference of Mayors. If you have questions or need further information, please call me at 342-1439 or Deputy Executive Director Tom Streitz at 342-1498. Thank you.

Attachments

cc: Tom Streitz

MPHA Board of Commissioners



MINNEAPOLIS PUBLIC HOUSING AUTHORITY

January 17, 2003

The Honorable Martin O. Sabo
2336 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Sabo:

The Minneapolis Public Housing Authority (MPHA) may soon be seriously impaired in its delivery of affordable housing to thousands of families and individuals by a sudden, unexpected and wholly preventable loss of funding from HUD for our day-to-day operations. This extremely serious predicament was not caused by any economic downturn, Congress failing to appropriate adequate funding or actions taken at the local level by housing authorities across the country. HUD created this problem, by its own admission recently to the entire industry, through mismanagement and inexplicable miscalculations after having informed housing authorities that Congressional appropriations would allow for 100% funding.

This quarter-billion dollar mismanagement gaffe may well cost Minneapolis and St. Paul millions of dollars, impact 10,000 public housing units and some 20,000 residents. MPHA owns and operates nearly 5,800 housing units that provide quality, safe and affordable homes for more than 9,000 residents. These residents are among the city's most vulnerable lower income citizens, including more than 5,600 children, senior citizens and disabled adults. On top of the \$250 million HUD-caused gap that is the most immediate concern, HUD has also informed us that the next year's operating subsidy may fall 10% or more short of full funding. Compounding this problem is the fact that HUD did not alert Congress or housing authorities about their erroneous funding calculations until months after they discovered it. Matters have only been made worse since then through incomplete, confusing and now what seems to be contradictory communications from HUD.

MPHA and the thousands of residents we serve clearly understand that these are fiscally challenging times for our local, state and national governments. We are not asking HUD or Congress for anything more than to fully fund (as HUD claimed to both Congress and the industry that it was) the basic program that keeps some 1.2 million homes in America clean, well-maintained, safe and affordable.

HUD has now created a swirl of controversy and confusion over what housing authorities across the country like MPHA will receive in 2003 and 2004. Amidst this confusion, we know the following for certain:

1001 WASHINGTON AVENUE NORTH · MINNEAPOLIS, MINNESOTA 55401-1043
INFORMATION HELP LINE: (612) 342-1999

PHONE: (612) 342-1400 FAX: (612) 342-1407 TTY: SECTION 8/(612) 342-1474, RENTAL/(612) 342-1415
EQUAL EMPLOYMENT OPPORTUNITY / EQUAL HOUSING OPPORTUNITY

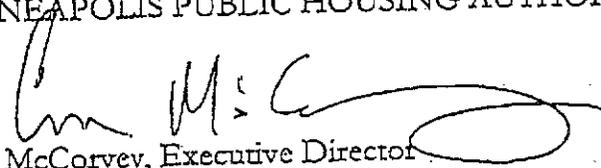
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- (1) HUD has discovered and belatedly told the industry that FFY 2002 appropriations for operating subsidy were \$250 million short of what was needed to fund all housing authorities at 100% -- *months after saying full funding was appropriated!* HUD itself says that inaccurate estimates and lack of timely database changes and information reporting contributed to this extremely unexpected quarter-billion dollar shortfall. In addition, Congress still has not yet approved FFY 2003 appropriations. MPHA has received correspondence from HUD. HUD stated that we are only receiving 54% of our operating subsidy at this time for this year. HUD further stated that it intends to provide the remaining subsidy (to what extent is still uncertain), by taking from operating subsidy appropriations for next year that could then mean a funding level at that time of 90% or maybe even less for next year. Both of these scenarios could mean a loss of millions of dollars to MPHA and the city. For example, 70% operating subsidy would be a \$4.5 million dollar loss, 85% would be \$2.25 million and 90% would be a \$1.5 million loss (annually).
- (2) This comes at a time of very serious fiscal situations at both the city and state level in Minnesota and across the country.
- (3) The overall funding picture from Washington for the much-needed affordable housing programs that MPHA delivers is very uncertain and unpredictable at this time. This kind of situation has the potential to lead to the kind of instability and concern that can be disruptive to our agency's daily operations, the thousands of households across Minneapolis that we serve and our entire community.

Congressman Sabo, will you please insist that HUD fix its mismanagement problems and take immediate action to correct the \$250 million Operating Fund shortfall rather than penalizing high performing housing authorities and the thousands of residents MPHA serves? In addition, demand that HUD fix these problems to adequately address future funding requirements? Will you also please demand that HUD be more timely, accurate and forthright in its communications with housing authorities as well as with Congress on this issue? Please do not hesitate to contact me at 612-342-1439 if you need further information.

Very truly yours,

MINNEAPOLIS PUBLIC HOUSING AUTHORITY


 Cora McCorvey, Executive Director

cc: Mayor R.T. Rybak Minneapolis City Council MPHA Board of Commissioners

Thanks for all your efforts!

-----Original Message-----

From: William_O._Russell@hud.gov [mailto:William_O._Russell@hud.gov]

Sent: Wednesday, January 15, 2003 6:05 PM

To: kevinmarchman@noah.org; tkaiser@phada.org; SRamirez@nahro.org; Sunia Zaterman

Subject: Operating Subsidy Message from HUD

All, This message was sent to housing authorities this evening and we wanted your groups to have a copy of what was sent. Best Bill

Dear Executive Director,

I want you to know that this Administration is doing everything it can, under the current circumstances, to ensure you will get the resources to enable you to serve those most in need. I also want to further clarify the status of the Operating Subsidy program and how HUD intends to fund public housing authorities (PHAs) in 2003. In light of a shortfall in funding during 2002, and the fact that we continue to operate under a continuing resolution for 2003, it is important that you understand the facts rather than rumor or misinformation.

2003 Funding Level

If Congress passes HUD's requested budget, and when we receive additional 2003 PHA budgets, HUD intends to fund at or near 90% of your eligible subsidy requirements this year (assuming no dramatic increases in subsidy requests from PHAs this year).

Historical Funding Levels

For most of the past decade, HUD has funded PHAs at less than 100%. As recently as 1996, funding levels were as low as 89%. The funding shortfall in 2002 occurred largely because PHAs were funded at 100%, rather than the lower percentage levels that existed through much of the 1990s.

2001 & 2002 Shortfall

In 1999, under the previous administration, HUD changed its funding formula, in part to redirect some funding from large to small PHAs. At the time, however, HUD did not change its reporting and accounting systems to support this change. This failure led to inadvisable management practices. For example, HUD used 1999 data for 2001 funding.

Once this inappropriate accounting practice was brought to the attention of this administration, HUD management began taking the necessary steps to correct it. By the end of this fiscal year, a new long-term reporting and accounting system will have been developed and implemented.

Unfortunately, the previous system made it difficult to forecast future funding streams correctly and to set percentage funding levels responsibly, resulting in some years in significant funding shortfalls. For example, in 1998 (a 100% funding year), there was a \$102 million shortfall, leading to a 92.5% funding level the next year. In short, poor accounting systems and practices led, in some years, to the setting of inappropriately high funding percentages, which in turn led to funding shortfalls.

HUD intended to fund PHAs at 99.5% in 2001 and 100% in 2002. However, the Department learned this Summer that there was a shortfall in 2001 that carried over into 2002 and resulted in many fourth quarter (October 1 start date) PHAs receiving only partial funding for their 2002 fiscal years. Over the past decade, HUD's practice has been to automatically dip into future years' appropriations to

compensate for any shortfalls. This is an unacceptable and irresponsible practice, and HUD has pledged to Congress that it will manage the Operating Subsidy program responsibly within its annual appropriations. Therefore, to fully fund fourth quarter PHAs for 2002 as we did for those with fiscal years starting in the first three quarters, we must get permission from Congress to use up to \$250 million from our 2003 Operating Subsidy budget. It has been our belief since late September 2002, that we will receive cooperation from Congress.

PIH Notice 2003-1

As many of you know, HUD issued PIH Notice 2003-1 on Monday, January 6, 2003 (<http://www.hud.gov/offices/pih/publications/notices/index.cfm>). In that Notice, we attempted to explain how we would fund housing authorities with a January 1 fiscal year (first quarter) in light of the fact that Congress has not passed a 2003 budget. In order for the Department to calculate accurate and final Operating Subsidy amounts for each PHA, we must require all PHAs to submit subsidy calculations to us by May 1, 2003. Therefore, until the Department has its 2003 budget approved and accurate subsidy calculations for all PHAs, we decided - out of extreme prudence and caution - that the most responsible course of action is to provide the 'first quarter' PHAs with a minimum funding level of 70% of its 2002 budget. In consultation with members of HUD's congressional committees of jurisdiction, HUD has received support in its cautious approach.

This rate of funding is NOT the final funding rate for 'first quarter' PHAs, as was stated in PIH Notice 2003-1. As explained in this Notice, this is only a temporary rate until HUD has its 2003 budget and accurate information on which HUD can responsibly determine funding levels for all PHAs throughout 2003. HUD will notify all affected 'first quarter' PHAs immediately upon any upward revision to our temporary funding levels. Again, as stated above, HUD intends to fund at or near 90% of eligible subsidy requirements if Congress passes HUD's requested budget (assuming no dramatic increases in subsidy requests from PHAs this year).

Please know these actions are taken with concern to you as managers and those whom you serve. This is precisely why we are committed to our ongoing efforts to change and improve the accounting and reporting practices that have led to similar problems in the past.

If you have any questions regarding the information discussed in this e-mail, you may submit your questions to Bill Russell, Deputy Assistant Secretary for Public Housing & Voucher Programs, at: Bill_Russell@HUD.GOV.

Sincerely

Michael Liu
Assistant Secretary for Public & Indian Housing
US Department of Housing & Urban Development



January 13, 2003

HUD'S MISMANAGEMENT CREATES HOUSING CRISIS FOR MOST VULNERABLE AMERICANS BY SLASHING FUNDS 30 PERCENT

Some of the most vulnerable members of our society – the elderly, children and persons with disabilities – are facing a 30 percent loss in housing funding this year. HUD unexpectedly notified Public Housing Authorities (PHAs) on Jan. 6 that their Operating Subsidy would be slashed by 30 percent.

HUD admits the drastic cut is due to its own miscalculations and inadequate information systems. PHAs across the country are reeling from the news, grappling with how to manage a cut of this magnitude. They are making every effort to minimize service disruptions but a dramatic reduction of this size will make it virtually impossible.

Immediate impacts include staff layoffs and cuts in basic management services such as routine maintenance calls and preparing vacant units for already long waiting lists of families. Fewer affordable housing units will be available for occupancy. Other services likely to be reduced include safety and crime prevention programs; resident services; day care and after-school programs; job training and education programs. These cuts will also undermine critical public/private partnerships that bring much-needed private investment to public housing neighborhoods including revitalizations brought about by the highly successful HOPE VI program.

Public housing serves more than 3 million low-income people across the country - almost 45 percent of them seniors and persons with disabilities. One million children live in public housing. These vulnerable citizens will bear the burden of HUD's miscalculation.

This reduction in federal funding comes one year after the Administration killed the successful Public Housing Drug Elimination Program (PHDEP). PHDEP provided essential law enforcement services to enhance community-policing efforts and also funded drug prevention and youth programs. The Drug Elimination program proved enormously effective in reducing crime in public housing communities and surrounding neighborhoods across the country. In an ironic twist, HUD justified killing PHDEP by claiming its activities could be funded through the Operating Subsidy, which now will be cut by 30 percent.

Even more alarming, PHAs that began their fiscal years on Oct. 1, 2002 have just been notified by HUD that they will receive only 54 percent of their operating funds until further notice. Many PHAs are concerned about meeting payroll obligations and providing basic services in the immediate weeks. Without more money, nearly one fourth of the housing authorities in the country will run out of operating funds on April 1, 2003.

As this funding crisis deepens, HUD has failed to take any action to seek additional funding. We call on President Bush and Congress to ensure that PHAs can continue to provide well-managed, safe and decent housing. This can be accomplished by providing \$250 million in emergency supplemental funds to cover the FY02 shortfall and adequate funds to meet operating needs for FY03.

For more information contact: Sunia Zaterman, Executive Director
 Council of Large Public Housing Authorities
 (202)638-1300 (202)638-2364 Fax szaterman@clpha.org

* HUD now says the 70% will be closer to 80%.

For Immediate Release
January 22, 2003

Contact: Sabo -- Travis Talvitie (202) 225-4755
McCollum -- Josh Straka (651) 224-9191

Sabo Denounces HUD Accounting Gaffe

Urges HUD to Make Good on Promise to Fully Fund Public Housing Operations

Washington, D.C. -- Congressman Martin Olav Sabo (D-MN) today renewed his demand that the Bush Administration fix budget problems within the Department of Housing and Urban Development (HUD) and follow through with its promise to fully fund public housing operations.

Last week, Sabo joined House colleagues in a letter criticizing HUD Secretary Martinez's announcement of a \$250 million shortfall in the public housing operating fund for FY2002 after having promised full funding to public housing agencies. In addition to cuts in FY2002, this shortfall may translate into a 30% reduction in operations funds for housing authorities in FY2003 -- totaling \$4.5 million for the Minneapolis Public Housing Authority (MPHA) and \$3.2 million for the St. Paul Public Housing Agency (SPHA).

"The federal government must keep its promises. Congress appropriated sufficient funds and HUD committed full funding of operating assistance to housing authorities last year. But instead, due to an accounting error, HUD now jeopardizes thousands of Minnesota's most vulnerable citizens: Children, seniors and those with disabilities," said Congressman Sabo, a senior member of the House. "As a member of the House Appropriations Committee, I will work hard to ensure public housing authorities receive the operating funds they require. The Committee must also use its oversight authority to review HUD accounting practices and decisions that led to this unacceptable situation."

Other Twin Cities officials have also voiced concern. Congresswoman Betty McCollum (D-MN), whose district includes St. Paul, said, "Only a month after Congressional Leaders proposed cuts to vital housing assistance for Minnesota's low-income families, the administration is now proposing to leave our neighbors out in the cold. Two thirds of the public housing in my district -- more than 2700 units -- is for the elderly and people with disabilities. This subsidy helps keep the heat on in their homes. During these tough economic times, we should not tie the hands of local officials who provide safe, affordable housing to Minnesota families, seniors and people with disabilities."

Cora McCorvey, Executive Director of MPFA, said "It is terribly unwise and unfair to pass on multi-million dollar mistakes to our agency, community and the thousands of households we serve at a time when the affordable housing crisis in Minneapolis and the Twin Cities is still so severe. Sixty-eight percent of all public housing households in Minneapolis are headed up by senior citizens or disabled adults, and one-fourth of all residents are children. We simply cannot afford to put the management and maintenance of their homes at risk because of an inexplicable funding gaffe at HUD."

Jon Gutzmann, Executive Director of the SPFA, added, "The proposed 30% cut in operating funding is not the result of Congressional deliberation or action. Congress understands the importance of affordable housing to the 3400 cities across America that embrace public housing in their communities. The 30% cut is the result of HUD's mismanagement and information systems problems. HUD's plan to pay a prior year's operating costs with current year appropriations is a misuse of power and funds. Congress was not aware of this and should launch an investigation over this practice."

The public housing operating fund is used for property management and maintenance, security, heat and other utilities, and general operations expenses for housing facilities. Combined, SPFA and MPFA oversee 10,000 housing units serving over 20,000 residents. For more information specific to the agencies, please contact:

Mr. Jon Gutzmann, Executive Director, SPFA: (651) 292-6171
Mr. Bill Paterson, Communications Director, MPFA: (612) 342-1399

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