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California housing for developmentally disabled has high cost

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In 2006, a state-funded center serving developmentally disabled people spent $2.9 million to develop four houses for its clients in Riverside County.

Just months after the houses were completed, the county assessor's office estimated the properties were worth $1.1 million less than the Inland Regional Center had paid to build them.

Four years later, they're worth 31 percent of their cost.

The $2 million loss, as documented by tax records and assessor data, wasn't just the result of a bad real estate bet made with public money by the regional center, which is part of the state's system of 21 nonprofits charged with arranging care for developmentally disabled people.

A Bee investigation has found that the Inland Regional Center overspent on real estate because it paid above-market rates for new construction, issued no-bid contracts and paid rent on an empty headquarters building.

The Inland center built the four houses using a nonprofit affiliate. State officials have encouraged Inland and other regional centers to work with such nonprofits because of concerns that private caregivers operating houses under contract to the regional centers would close - jeopardizing the housing supply.

Sixteen of the state's 21 regional centers now work with such nonprofit housing affiliates. Since July 2007, they've developed 37 properties. An additional 60 homes in the Bay Area house residents displaced by the closing of the Agnews Developmental Center. Yet critics, including service providers and legislators, contend that problems have been popping up because the centers and their nonprofit housing affiliates aren't subject to public disclosure requirements that would cast light on how they use state money. Finances hard to fathom

Lots of public money is on the line. Regional centers received $3.4 billion in public funding in the last budget year to serve about 240,000 people.

"This whole new direction that regional centers are taking is very troubling to me," said state Sen. Bill Emmerson, R-Hemet, who is planning hearings into the system. "The amount of money that's being spent (on housing) is problematic, and we need to get to the bottom of it."

On top of that, Emmerson plans to investigate compensation in the regional center system, spurred in part by a Bee report in November that showed that the head of one Ontario-based service provider, Benson House, received $520,000 in state-funded salary in 2008 to oversee care for several dozen people.

The state Department of Developmental Services, which administers the regional centers, reviews financial details of individual housing projects, including development costs, said spokeswoman Nancy Lungren. She provided no details about expenses related to the Riverside County projects.

"(The housing) is within the system, and it builds equity, and when the houses are bought and paid for, it stays within the system so the regional center can place its clients into the homes," Lungren said.

While new projects built by the regional centers appear throughout the state, the public is usually allowed only glimpses behind the scenes through the tax returns filed by the centers and their housing affiliates.

For example, the nonprofit Community Housing Resources Inc., which worked with the Orange County Regional Center, spent about two-thirds of its taxpayer-funded budget from 2002 to 2008 on management salaries and administrative expenses, while sitting on more than $600,000 in reserves, tax returns show.

According to the American Institute of Philanthropy, which rates charities, a nonprofit must spend at least 60 percent of its budget on programs - with the remainder going to management, fundraising and overhead expenses - to earn a "C" grade.

Joseph Singh, executive director of Community Housing Resources Inc., could not be reached by The Bee, but he defended the spending in a 2008 letter to the Orange County Register. According to the Register, Singh said the nonprofit "continued to explore opportunities to leverage what, in real estate terms, is a relatively small amount of money to the maximum benefit of people with developmental disabilities." All in the family

Contracts, invoices and internal memos obtained by The Bee show that the Inland Regional Center and its housing partner, the California Housing Foundation, have used no-bid contracts and awarded work to the sons of the housing board chairman.

In 2005, the Inland center committed to spending $450,000 to help its housing partner develop a 15-bungalow project in the city of Moreno Valley. The documents don't show how much was ultimately spent on the project - which was never built.

At least $18,200 of that money was charged for contractor's fees for New Heights Construction, a company owned by the sons of Don Nydam, who was then the foundation's board chairman, according to an invoice sent to the foundation. A much larger sum, $65,850, was dedicated to the developer, Community Homes, where Nydam's sons are listed as key team members.

Jack Nydam said he and his brother were paid for the work but couldn't recall the exact amount.

"He was on the board," said Jack Nydam of his father's role. "And it was just a natural way to develop the project that we got involved."

Don Nydam said the bungalows were meant as a "demonstration project" for the Inland Regional Center with cottages spread out over an acre, and his sons had the experience to build them.

"I knew what these people needed," Don Nydam said, referring to the foundation. "These boys have built this, and who better to do a demonstration project than someone who's done something like this before."

Steve von Rajcs, executive director of the California Housing Foundation, said failure to secure enough money for the bungalow project ultimately scuttled it.

"We couldn't get the rest of the financing in place," von Rajcs said. "It's unfortunate that it didn't work out."

Inland Regional Center Executive Director Carol Fitzgibbons said she and the center's board canceled the bungalow project in 2010 after deciding it didn't fit into their housing philosophy.

In another case, the housing foundation issued a $77.5 million bond to build the Inland Regional Center a new headquarters in San Bernardino.

After relocating in September 2009, the Inland Center couldn't find tenants for its old headquarters, which it was committed to leasing for nine more years at more than $1.6 million a year. The regional center ended up paying the lease on its empty former headquarters for more than a year.

Fitzgibbons told The Bee that the regional center recently "settled with the landlords" of the old buildings. She said state money was not used in the settlement, but refused to outline the terms of the settlement or say where the money came from.

Service providers and contractors who have worked with the Inland Regional Center said the lack of transparency extended to the way its housing foundation chose contractors.

The California Housing Foundation's von Rajcs said the foundation often worked with a project manager who used a regular group of subcontractors rather than puting out formal bids.

That arrangement irked Jack Nydam, who said he and his brother Jim Nydam have often been left in the dark about foundation projects since their father left the board of directors in mid-2010.

"They don't even give us a chance to bid on the projects, usually," Jack Nydam said. "It doesn't seem right." High costs, huge losses

As to the four houses in Riverside County that lost more than two-thirds of their value, von Rajcs said the foundation requested bids. After receiving comparable offers, the foundation picked Norco-based Brook Corp. because the "Brook folks hit it off better with folks who were dealing with them."

Brook Corp. principals William and Dawson Souden could not be reached for comment. The company's website disappeared after Dec. 17.

The foundation reported that it spent $817,943 in building and land costs for one of the houses, a five-bedroom structure just outside of Hemet. Soon after construction in 2006, the house was assessed at $489,500. Its current value is $249,000, according to county records.

According to real estate website Trulia, the average construction cost per square foot for houses in Hemet hovered around $190 in 2006. Around that same time, the square foot cost for the four houses built by the foundation ran as high as $315, according to assessors' documents and tax returns.

Asked about the seemingly excessive costs of the houses, von Rajcs said the foundation installed custom features needed in residential facilities, such as harder walls and a circulating plumbing system that could instantly provide hot water.

He added that the building costs listed on the foundation's 2007 tax return included startup expenses for the service providers using the houses.

Nonetheless, von Rajcs said the foundation has learned how to cut costs. "As it turned out, we could do it much cheaper now."

Such explanations make little sense to Steven Weaver, an Auburn-based contractor who upgrades residential facilities for the Alta California Regional Center in Sacramento. "It would be hard for me to explain these extra costs," Weaver said of the Riverside County houses.

Von Rajcs said his group now focuses on rehabilitating existing homes, with one recent project in nearby Apple Valley costing about $220,000 to purchase and $80,000 to renovate. Ownership a sticky issue

Boyd Bradshaw, director of a statewide coalition of 1,200 service providers, believes the state is spending dwindling resources on a nonexistent problem.

Service providers are not closing in great numbers, Bradshaw said. Fitzgibbons and East Los Angeles Regional Center Executive Director Gloria Wong said they have not seen a flurry of cases in which care providers left the system and took their housing with them.

Still, Wong's organization sent out letters in 2009 notifying residential service providers that they were required to use the facilities of its spinoff, Key Community Housing. Wong said her center quickly reversed its demands after the state asked the center "not to hold to that practice" because the state was still working with a range of housing providers not connected to the housing nonprofits.

The system hasn't always worked this way. The Lanterman Act, which established the regional center system in 1969, forbade the centers from owning property.

The regional centers were encouraged to develop property after a court order in 1994 pushed the state to house the developmentally disabled in "community living arrangements" rather than in large institutions.

Senate President Pro Tem Darrell Steinberg, D-Sacramento, said creating more residential facilities for the developmentally disabled was key to helping more people move into communities. In 2008, Steinberg carried successful legislation that authorized the Department of Developmental Services to review and approve such housing plans and to have regional centers "ensure the purchase price is within the range of fair market value." The law has not been fully implemented.

"If there was some loss to the state beyond the loss that has been experienced across the housing market, we'll look at the specific case and we'll look at the law and how we'll fix the law," Steinberg said. "We want to do it right, and I think this still holds great hope."

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