Housing millions down drain

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Non-Profit Housing is a money tap opened in the name of the poor by the Liberal government in 1986, and cranked into a wide-open gusher by the New Democrats in 1990.

During those 10 years, Ontario taxpayers have funded the construction of 86,354 apartment or townhouse units at a cost of $8.95 billion. Despite growing vacancy rates in many areas, another 18,000 units are in the works. When the total of 104,354 units are up and running, it will cost taxpayers $1 billion or more a year to subsidize this housing, about one-quarter of it for units occupied by middle- class tenants or sitting vacant. Cash-strapped Ontario has to borrow that subsidy money. Like a credit card with no spending limit, this is adding to Ontario's deficit as interest compounds upon interest.

Along the way, millions of dollars have been misspent, overspent or wasted down this giant money pit.

This is a story about how the noble concept of providing mixed- income housing has gone dangerously off the rails, and how gross government mismanagement produced an open invitation for abuse.

Here is how it happened:

At the lucrative trough of non-profit housing, many have come to feast.

And why not? The politicians are pleased to dole out the cash, and the taxpayer picks up the tab.

In the beginning, non-profit housing was conceived as a way for community groups to build apartments that would house low- and moderate-income tenants side by side so as not to create ghettos of the poor.

Today, this program is sinking under a morass of profiteering, political favoritism, shady business deals, conflicts of interest, suspected fraud, spiralling debt and lack of accountability.

In Toronto, the Terra Bella housing project, run for years as one man's personal fiefdom, spins out of control, The government has been unable, for years, to properly account for the $23 million shovelled into this building.

Just north of Maple Leaf Gardens in Toronto, the maw of the already overpriced City Park project is chomping up $6 million more than the government budgeted. So far. The deal for this massive project was done in just nine days. An example of haste makes waste.

In Hamilton, Toronto, Sarnia, Niagara Falls, Brockville, Sudbury, Barrie and elsewhere across the province, non-profit buildings are being snubbed by middle-class tenants whose rents are needed to help pay the bills. Why? They can find cheaper deals in private buildings.

In Sault Ste. Marie, police have investigated nine members of a co-op housing project who used elevated rent receipts to obtain an extra $240,000 in welfare payments. All nine were living in heavily subsidized units. Four face charges over separate welfare fraud schemes.

In Tel Aviv, you will find a former Toronto businesswoman who did quite well off non-profit housing. She speculated on a land deal and earned $8 million in just 10 months, selling the lakeshore property in Etobicoke to a non-profit housing developer. It became the site of some of Ontario's most expensive non-profit units.

In Oshawa, the Consideration Co-Op is close to bankruptcy and has sued the ministry of housing over reductions of about half a million dollars in its annual subsidy. The ministry is threatening an audit. Co-op members are taking turns sleeping on a mattress in the boardroom, standing guard over the books.

Buried in your Ontario tax bill is evidence of a $27 million waste related to six housing projects in Metro that were never built. The Liberals began the mess in 1988 buying $13.5 million of land without checking to see if it was contaminated. It was. In 1991, total project costs had zoomed to $20.2 million thanks to a ticking interest clock and money spent on consultants and architects.

That's when the housing ministry's executive director advised former NDP housing minister Evelyn Gigantes to bail out. She waffled until 1994, when the costs had reached $28.5 million, and finally killed the deals because they had become too expensive, even for the housing ministry.

No single story tells the entire tale of waste and malfeasance.

Listen to what some of the people connected to non-profit housing have to say:

Donna Hamilton, a consultant who worked on many non-profit projects in Barrie and Toronto:

``People have gotten away with financial murder . . . they have wasted millions and millions and millions of dollars.''

Tom Blanchford, a Brockville businessman trying to stop a project in his town because they already have many vacant units:

``You shouldn't call it non-profit housing, you should call it huge-loss housing.''

Bill Morris, president of the Co-op Housing Association of Ontario:

``The ministry of housing loves to respond to problems by making more rules. We don't need more rules. We need better rules.''

Keith Ward, a senior housing bureaucrat in Peel Region, in a letter last year to Ontario's housing ministry warning that unscrupulous people would make a killing at taxpayers' expense:

``We have already begun to hear news of wheeling and dealing . . . bribe offers . . . requests for kick-backs.''

Andrew Ross, founding president of the Lakeshore Village Artists Co-op, who believes the good of non-profit housing will be destroyed by the waste in the system:

``It's like an obese guy with a cholesterol problem, jogging down the street on a hot summer day. He thinks he's doing something good. But you know it's only a matter of time or a few metres before he drops dead.''

A ministry of housing official:

``There isn't a police force in the world big enough to investigate all the rot in non-profit housing.''

Before we meet the characters, let's understand the money trough.

Non-profit housing was an answer to the ``dark ages'' of public housing. In the 1960s, the Tory government built giant housing projects that became ghettos for the poor, blamed for breeding crime and other social ills.

By 1986, there was a new game in town.

The concept of non-profit housing - as opposed to for- profit housing built by a private developer - was to set up volunteer groups to build and manage housing projects.

The government created three types of non-profit groups: co-operatives (co-ops), formed by private citizens; private non-profits, formed by community groups, churches or ethnic groups; and municipal non-profits, run by a municipality.

The ministry of housing then passed out that most prized of all possessions: The Allocation.

``The allocation is basically a blank cheque. It gets them a mortgage, land and a building,'' a ministry official

explains.
From 1986 to the present, 2,114 of those blank cheques were handed out. More are being handed out as you read this story.
One recent allocation is under investigation by the province's conflict of interest commissioner over allegations that NDP Social Services Minister Tony Silipo pulled strings to get the Canadian Calabrian Non-Profit Housing Corporation an $11 million deal after it was turned down by housing ministry bureaucracy.
Politics often determines allocations.
Ridings with NDP or Liberal members, who are in favor of non-profit housing, did extremely well. Like Fort York, Beaches-Woodbine, Etobicoke-Lakeshore, Mississauga West, Durham-Centre, St. George-St. David, Ottawa Centre and Guelph.
In the NDP riding of Durham- Centre, Oshawa's staunch union area, politics overwhelmed common sense.
Despite rising vacancy rates in Oshawa from 1990 onward - to a peak of 6 per cent in 1992 - the NDP approved the building of 1,622 units with a value of $209 million.
Now let's look at all of Ontario - today, at a time when non- profits are continuing to be built.
According to 1994 vacancy data from the Canadian Mortgage and Housing Corp., there are 53,017 vacant private apartments in the province. There are also 2,548 publicly supported housing units sitting vacant, including non-profits, co-ops and the older Ontario Housing stock.
In many cases, allocations went where they were not needed, while areas with lengthy waiting lists were shut out. Peel Region's municipal non-profit group, Peel Living, has a 13,000- person waiting list. They have land ready to develop at a moment's notice. Yet the government has been handing out allocations to groups around the province who do not have land.
Jolanta and Krzyczof Pomezanski and their three children have been waiting for five years. They pay $940 a month for their three-bedroom apartment in Brampton, more than a third of their combined $2,400-a-month income.
They refuse to go on welfare, although that would make it easier to get into subsidized housing. A subsidized apartment - at half the rent they now pay - would give them a chance to get out of the hand-to-mouth existence they've grown tired of.
``We don't need a cheaper apartment for all our lives,'' says Krzyczof.
``We just need something cheaper for one, maybe two years - that's all. Then we would be able to move to a more expensive apartment, or maybe buy a house or rent a townhouse.''
Critics argue it is cheaper for the government to pay direct rent ``supplements'' to house needy tenants in existing private rental stock. The housing ministry used to do that, but Evelyn Gigantes cancelled the program in 1993.
Regardless of this dispute, those 2,114 blank-cheque allocations were handed out to eager groups.
John Maybee, an experienced non-profit housing accountant, says that's when the real trouble began.
``You've got a ministry dishing out all kinds of things to people who aren't ready to catch it,'' he says.
Richard Allen, the most recent NDP housing minister, says the NDP is running a tighter ship than the last government:
``We inherited a pretty loosely constructed program (from the Liberals) with all sorts of potential for problems.''
Allen says less than 2 per cent of groups are problems. Most, he says, ``are not in there to milk the public.''
The board of directors of a group - often people who had never balanced a cheque book or built a garden shed - are suddenly thrust into having to organize the building of, for example, a $25 million, 200-unit building.
Enter The Development Consultant, The Architect, The Landowner, The Developer, The Contractor, and The Lawyers.
This is the point where non-profit housing becomes non- profit in name only.
Let's look at the numbers for the whole program from 1986 to 1995.

It cost $8.95 billion to build 86,354 units. Roll those numbers around in your mouth. As a taxpayer, you will want to know if you got good value for your money.

This is the trough of public money. The way it works is this. The group takes out a loan for the full value of the project. Unlike a home mortgage, there is no equity. The government guarantees the debt.

This gives the group access to a tremendous amount of money, very quickly.

The development consultant teaches them how to spend the cash.

This creature, born out of the non-profit program, receives between 2 per cent and 4 per cent of the total building cost, depending on the size of the project.

That disturbs critics, who argue the fee structure provides no incentive to economize. (Fees have recently been cut back by the ministry, forcing many consultants out of business.)

Consultants accounted for about $300 million in fees over the 10 years.

Typically, the most successful were either former housing activists, usually with strong NDP ties, or former ministry bureaucrats with great connections.

People like Ed Bissinger, former housing ministry program manager. His firm, E. J. Bissinger Consulting Inc., were the consultants on $220 million worth of projects.

People like Dierdre Gibson, former senior housing ministry official, whose company did $324 million worth of projects. Gibson kept things in the family by hiring her husband, Robert Reimers, as architect on various projects.

People like Rick Tyssen of the Co-operative Housing Federation of Toronto. Tyssen's wife, Minnie Dejong, was a senior aide to Gigantes. Dejong says it was not a conflict.

People like the folks who worked at the Laborers Council Development Foundation, a group with strong NDP ties. They handled $243 million worth of projects, and routinely hired themselves as contractor. They recently folded, leaving a number of creditors and unfinished buildings.

The people who worked at Lantana, a group of 32 tenant activists and co-op supporters who completed well over half a billion dollars worth of projects. They are also teetering on the verge of extinction.

One of the first things the consultants do is hire an architect. One example of fat in the system, is that projects sometimes have two architects. One hired by the consultant to design the project, and one hired by the group to look over his shoulder. Sometimes the ministry adds a third.

Architects racked up about $550 million in fees. Sometimes there were design flaws. In the Sudbury area, at the Friendship Co-op, a special building for the disabled, an architect designed a building with doors too narrow, automatic opener buttons too high, and a crawl space storage area that you can only get to by climbing down a ladder - hardly something the wheelchair-bound can accomplish.

Lawyers accounted for about $50 million in fees, using a conservative ministry of housing estimate.

One major cost, before the shovel goes in the ground, is the ground itself.

Of the $8.95 billion spent to date on non-profit housing, $1.93 billion went to purchase the land for these 86,354 units.

The ministry set maximum prices groups could pay for land. Usually they paid it, or more. Ministry investigators say that, in some cases, groups secretly agree to pay a developer the top price for land. The developer provides a ``charitable kickback,'' anything from a cash donation to building a community centre.

Keith Ward of Peel's municipal non-profit housing office warned the government about this in a 1994 letter.

``Having myself been the recipient of bribe offers in the past, I firmly believe it is only a matter of time (if it hasn't happened already) before sponsors and/or development consultants are offered inducements to work on particular sites. . . It seems that some groups which have received allocations, and some consultants acting for groups which have received allocations, are going out to shop those allocations. This would be fine if they were looking for better value, but we are hearing requests for kickbacks.''

The biggest cost is building the building. One thing developers are uncomfortable discussing, is whether they could have done a project cheaper.

The Daniels Group has been the biggest developer of non- profit housing. Tom Dutton, Mitchell Cohen and Mark Guslits are senior members of the company, and all used to be co- op housing activists.

Their old friends talk about how Tom, Mitch and Mark have ``gone to the dark side.''

Tom Dutton is not concerned. He says the Daniels developments are an example of government and the private sector working well together.

``We have made money, no doubt about it. These non-profits got our company through the recession.''

Builders blame ministry of housing standards. Every step of the way, Dutton says, the standards are higher than the Ontario Building Code.

``For example, they insisted we install pressure-balancing valves in the showers, so that people won't get scalded if somebody flushes the toilet and it changes the pressure in the building. I mean, that's only an extra $60 a unit, but it all adds up.''

For most of the projects, the ministry established a ``maximum unit price,'' which was quite high by industry standards. Most groups used that as their target. Quite a few overshot that target.

In Sarnia, builder John Rozema has a tale to tell.

Rozema was hired by a non-profit group to build a $5.1 million project called Faethorne. Risking losing the contract, he told the ministry and the group they were spending too much. The best he could do was save the taxpayers $60,000. Additional recommended savings of about $100,000 fell on deaf ears, such as a less elaborate but more lasting roof design; not finishing the recreation rooms in each unit; dropping fine oak railings; using wood columns on the porches instead of expensive fiberglass columns; and cutting the elaborate landscape architecture complete with ``Canadian red bark mulch'' that would keep down weeds.

Rozema is bothered about it all, including the red bark mulch.

``I don't know why these places have to have so much money go into them. For me, at my house, if I have a weed or two growing up, I just get down on my knees and pluck it out.''

In other cases, builders made a pretty penny, but did a poor job. The Terra Bella project in Toronto, built by West York Construction, is one example. Just five years old, the foundations are crumbling. The cement work in the underground parking area, which supports the building, looks like the Gardiner Expressway, which is many years older and exposed to the elements. Lean against the walls in the hallways and you can feel the supports give way.

At the Marigold co-op in Whitby, substandard elevators and smoke detectors were installed. It cost thousands of dollars more to do the job right.

Let's go back to the total cost of $8.95 billion for 86,354 units.

Now let's divide them. Each unit, on average, cost $103,643.

The provincial housing ministry likes that number, because it looks low. At least, in Toronto it looks low.

What they do not want you to know is that many of these units were built for a lot more.

How about the $162,389 for the Lakeshore Village Artists Co-op. Land speculation drove up land cost, then special live/work amenities for artists like industrial sprinklers, unusual unit designs and special exhaust fans hiked the price higher.

Or the $340,725 per unit for renovating a home for ex-psychiatric patients in Toronto's Beach area. Blame contaminated soil, a lengthy development process that racked up interest costs, and neighborhood opposition that cut the size from 18 units to four.

Or the $189,000 per unit on Coxwell Ave. in Toronto for another proposed home to house artists. Blame contaminated soil and high interest costs.

Or the $168,103 per unit for the Loyola Arrupe seniors project on Bloor St. in High Park. Blame the ``not in my backyard syndrome.'' Neighbors' objections caused a five-year wait, which jacked up the interest costs. Plus, it has a multitude of different floor plans for 80 units. A typical building in the private sector might have three.

Co-ops have the highest average unit price. Co-op association leader Morris says that's because they build more family units than regular non-profits.

Co-ops have another built-in cost. Morris' group receives 1 per cent of the total capital cost of each project. Since 1986, that amounts to about $22.5 million, used for developing more co-ops, educational programs, bailing out co-ops in financial trouble and association salaries.

Let's put all of these unit prices in perspective.

In Toronto, according to a developer who built a private apartment building in the last few years, it should cost no more than $100,000 a unit, including land, for a decent apartment unit. Yet, the average spent on units in Toronto was $117,000.

Now let's look around the province.

In Niagara Falls, where you can purchase a 10-year-old, three-bedroom townhouse for $40,000, and a new one for $80,000, the Skyline Co-op built 60 townhouses for $106,094 a unit.

In Whitby, where Rita Nowak is marketing pleasant, renovated townhouses complete with air conditioning and fancy kitchens for $89,000 - and the builder is still making a profit - a non-profit townhouse project around the corner cost $141,000 a unit.

``They spent $141,000! You're kidding! We bought these for $60,000, renovated them and resold them for $89,000. For $141,000, they should have the Taj Mahal,'' says Nowak.

Some critics have said it would be cheaper to buy old properties and renovate them.

Jack De Klerk, of Tenants Non-Profit Redevelopment Co- Operative Inc., is the master of doing this. De Klerk, a lawyer who, like Bob Rae articled with the United Steelworkers, has renovated 1,088 units.

Industry sources argue his renovation prices are far too high. He buys buildings for about $45,000 a unit and spends $60,000 per unit on renovations. Private developers typically put no more than $10,000 per unit into renovations when they purchase a building.

De Klerk says his renovations will make the buildings last.

``We are not content to scrape a balcony and paint it. We fix them properly. Our rehabilitation budgets are not just `let's go on a spending spree.' There are some real concerns,'' says De Klerk, who was a tenant activist who once battled landlords over these issues.

But De Klerk has not done the balconies yet at 15 Thorncliffe Park Dr., a recent project. In fact, they have only done minor renovations since buying the building for $3.2 million in 1993 and turning it into a co-op. The per-unit cost to purchase was $41,783 a suite. Projected renovations will raise the cost to $103,551 a suite. But the co-op members have kicked De Klerk's consulting group out, complaining his fees are too high. They also object to pressure from De Klerk to use a particular contractor and lawyer on the project.

``We told them, and we have told the NDP government, that we don't want any more of their friends thrust upon us,'' says David Rahmadeen, the newly elected president.

``They are a difficult group to deal with,'' De Klerk says. ``We have stopped billing them.''

City Park is another example of high costs. Lantana did the job, with help from De Klerk. It's a 772-unit, three-tower project that the co-op paid $59 million for in 1989, although the co-op group had originally been approved to pay only $55 million. A private developer, Jonathan Krehm of O'Shanter Development, bid $47 million and lost out. He is happy now.

``The deal they did on City Park was so overpriced it was just not economically viable. If I had purchased it, I would be bankrupt today. Only the government could afford this kind of deal.''

The total cost of the project was to be $65 million. It is now at about $71 million and rising. Ministry sources say the government has effectively lost control of this project. The balconies have not been fixed there, either.

Okay. The buildings are built, or renovated, and the tenants are in.

There are two key issues that will effect the cost of these projects over the long run.

First, the housing ministry, in 1993, quietly stopped funding the ``replacement reserves'' for individual housing projects. Instead, they are keeping a central reserve, which groups say they must go to ``cap in hand'' when they need money for major repairs.

``I think that is financial suicide,'' says Tom Dutton of Daniels.

Secondly, the buildings are costing more to run than projected. Some of this is due to poor management and a tendency, often through ignorance, to pay top dollar for everything.

Across the province, co-op and non-profit boards are screaming for more money. Many are increasing the size of their mortgages, which will translate into higher taxpayer-funded subsidies.

``The government's theory is falling apart. They are becoming more expensive to run,'' says housing consultant Donna Hamilton.

Take Consideration Co-op in Oshawa as an example. The original mortgage was $12.5 million for this 99-unit building. A second mortgage of $425,000 was later tacked on to cover expenses, including $40,000 more for the consultant, Lantana. Until recently, the co-op had $750,000 in the bank. But the ministry has told them an administrative error caused a $543,809 overpayment of subsidies. The ministry started taking it back.

But a good chunk had been spent on a board-approved ``wish list,'' including window coverings for solariums, a chain-link fence, a security camera at the front entrance feeding into members' cable systems, and $5,350 worth of audio/visual equipment for members' use, including a big screen TV and CD player. Other money went to hire a director's spouse as a part-time cleaner. She became the highest paid employee.

In the co-op's lawsuit against the ministry and Lantana, Consideration co-ordinator Maureen Ellis says the co-op ``has gone from having a healthy reserve to financial ruin.''

Bill Morris, of the Co-op association, says the ministry is not giving the groups enough power to run the housing projects properly. ``Government is backseat driving every decision. They have seriously eroded the tenants' decision-making ability.''

But across the province, non-profit problems are multiplying at an ever-increasing rate. Ministry staff say they do not dare take their eyes off many groups. Conflicts of interest abound. The ministry has a conflict-of-interest policy, but few seem to know or care about it.

At the union-built Harmony-King Co-op in Oshawa, $28,000 has disappeared and the ministry is investigating a ``double- billing'' situation involving the former board president who hired his brother as property manager.

At the Ukrainian Non-Profit Homes Corp. in St. Catharines, the treasurer hired himself for landscaping and ground maintenance contracts.

At the St. John's Polish National Catholic Cathedral Residential Corp. in Toronto, the chairman hired himself as rental agent and property manager of the Cowan Ave. project. His son received the superintendent job.

Development consultants also have trouble understanding the rules.

As the years have gone by, the consultants who organized the building of the projects have realized there is money to be made in managing them. So they pressure the board to hire themselves as property managers, usually through a related company with a different name, but the same address.

Like consultants Chris Smith and Associates. They set up Mainstreet Management in their consulting office (which happens to be in the same Gerrard St. co-op that houses the NDP headquarters) and recommend themselves to co-ops they developed. Smith says it's not a conflict. In fact, he says experienced consultants are the best people to manage housing projects.

Vas Kuchar, a consultant who is also an architect, often hired himself as architect on the project. He says it was cost effective. ``I have never understood why this program created the role of consultant. It is basically another layer doing just what the architect does, only without the experience.''

And on, and on.

With so many projects, the 420 housing ministry staff (up from 70 in 1986) who oversee projects have their hands full.

One task is checking to see if the needy are indeed being properly housed.

At the Ukrainian Non-Profit, a man who was paying market rent had his rent reduced dramatically when he told the property manager he was about to declare personal bankruptcy.

The ministry tried to verify this, but were unable to speak to the man. He was on an extended vacation in Florida.

Last week, a tenant in a non-profit building in Toronto, explained how easy it is to scam the system:

``I make $50,000 or $60,000 cash a year and I pay $300 rent a month. It's great. The government doesn't check up. Non- profit housing is great!''

Illustration

STAR COLOR DRAWINGS (ALFRED ELICIERTO): MONEY POURING OUT OF TAP MONEY FALLING INTO NON-PROFIT HOUSING PAGE A20 - 2 STAR PHOTOS (RANKIN): JOLANTA AND KRZYCZOF POMEZANSKI AND THEIR THREE CHILDREN HAVE BEEN WAITING FIVE YEARS FOR SUBSIDIZED HOUSING IN PEEL. CLOCKWISE FROM LEFT, BOARD MEMBERS JIM MCKEE, LARRY MCILVENNY, DEBBIE SPENCE, CAROLE WILSON, DOREEN ANDERSON AND MAUREEN ELLIS OF CONSIDERATION CO-OP FEAR ``FINANCIAL RUIN`` BECAUSE OF A HOUSING MINISTRY ERROR. PAGE A21 - STAR PHOTOS (RANKIN): ARTISTS CO-OP MEMBER AND FOUNDING PRESIDENT ANDREW ROSS WORRIES ABOUT OVERSPENDING AND WASTE IN THE NON-PROFIT HOUSING SYSTEM VACANT SITES: THESE SITES AT 366 ROBGERS RD. (*TOP) AND 1215 QUEEN ST. WERE TWO OF SIX PROJECTS CANCELLED LAST YEAR AFTER $28.5 MILLION WAS INVESTED. THE GOVERNMENT WAS ADVISED TO BAIL OUT IN 1991.