

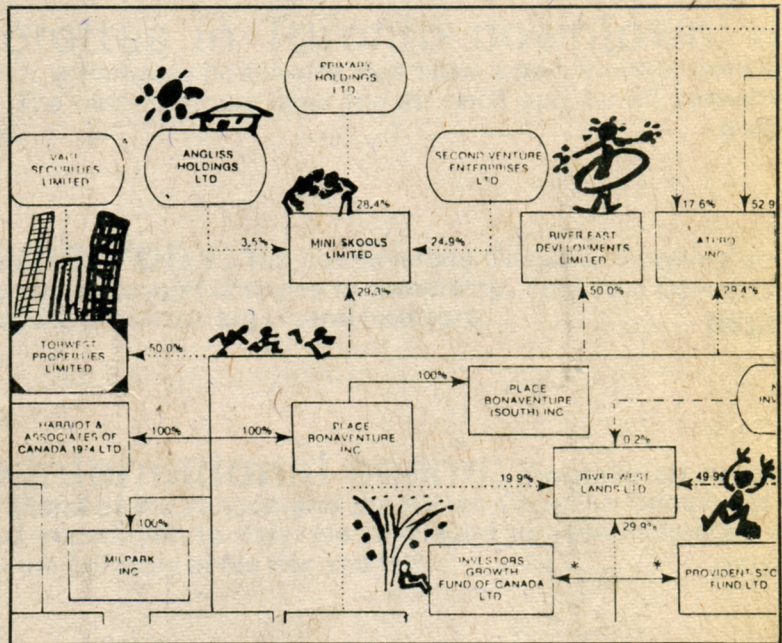
# NEXUS

A magazine of land, corporate and community affairs

Vol. I No. I

99 cents

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Vortex  
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# NEXUS

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# Market value Tax in sight

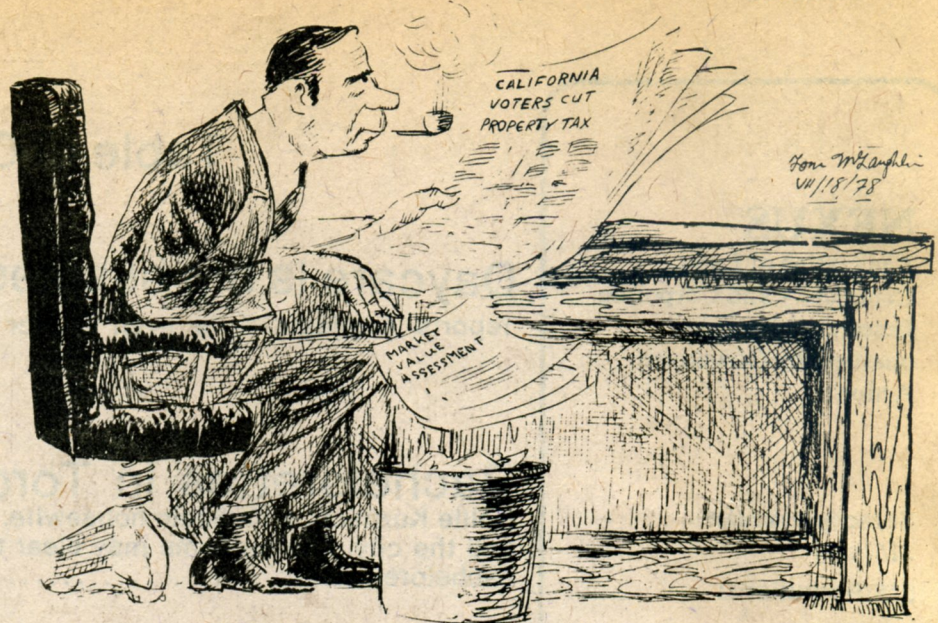
By Ernie Holwell

In the spring of 1969 the Ontario government introduced drastic changes in statutes regulating property assessment and the tax rate structure currently used by Ontario municipalities.

Commencing January 1970, an Assessment Branch under the Department of Municipal Affairs assumed control of all property assessment in the Province, absorbing existing municipal assessment structures and some of their personnel. The municipally operated system, prior to the above, had functioned adequately for some 35 years with little need for change other than minor adjustments from time to time. The basic issue is *not* property assessment and taxation but the *social responsibilities imposed upon property taxation by the province* -- i.e. the costs of education and all the social services and public care programmes.

Under the new government scheme all properties have been re-assessed at new values based on what is commonly called "market value", but which actually is the resale values established by Real Estate forces. The introduction of this new system, to become operative in January 1970, met with massive opposition from all over the province -- led by residential property owners who objected strongly to the "market value" approach to re-assessment. As a result the government was compelled to retreat by postponing implementation of the whole plan for five years, but fixing local assessments at the 1970 level which effectively tied the hands of local councils from adjusting assessment levels where required.

From an examination of the policies and the structure of the Corporation of Realtors it can readily



be seen that the so-called market values are the result of high powered and aggressive sales promotion, and that the Province's re-assessment programme is based on a constantly shifting foundation -- a foundation which *rests entirely* on the policies pursued by the Real Estate Fraternity.

## Real estate background

On December 7, 1921, the Ontario Association of Real Estate Boards was formed. One of its primary concerns was, and still is, "a keen interest in Ontario's statutes regarding property assessment and the expropriation powers vested in various levels of government and government boards."

A special committee also functions to deal with local zoning by-laws and legislation generally, to wit; "to guard and promote the interests of real estate before *all legislative bodies*...to report on *all plans* of public improvement and to take appropriate action in public affairs." The corporate structure as well as the policy of the Real Estate Fraternity is indicated in the following excerpts from the by-laws of the Toronto Board; Section 2; -- bylaws for Active Members reads as follows:

*"Active members shall be individuals, firms or incorporated companies holding a licence from the Province of Ontario, who, as principals, partners, corporate officers or trustees either individually, as a firm or as an incorporated company, which is defined*

*as buying, selling, exchanging, renting, managing, appraising or financing real estate for compensation and developing and selling land as building sites and building houses for sale."*

Active Members are also described as officials of Real Estate Departments of Trust Companies or any other corporate entity with a Real Estate Branch or department (Mortgage & Insurance companies etc). Associate Members are described in Section 4 as:

*"Any individual, firm, incorporated company or Municipality not a licenced real estate broker or actively engaged in the real estate business."*

## Basis for appreciation

This highly integrated and very powerful Corporation of Realtors decrees that land must at all times be developed at its highest and best use, which includes the concept that "appreciation factors" form an important part of property evaluation. In this respect we must all be aware the buildings, exclusive of the land upon which they stand, *do not appreciate with age*. Physical improvements, however, depending upon their nature tend to maintain or even increase the value of such properties, otherwise a building will deteriorate as age takes its toll. What, then, is the basis for property appreciation?

Services and amenities which are generated at public expense such as

*continued page 18*



## Private daycare in question

# Maxibusiness - Miniaccountability

By B.J. Hurd

"Miniskools markets daycare the way the Colonel sells Kentucky Fried Chicken", observes Ross McClellan, MPP for Trinity Bellwoods Riding and Social Services Critic for the New Democratic Party. McClellan's comments come at a time when Miniskools, one of the largest providers of daycare in North America, is once again under investigation by municipal and provincial legislators.

Miniskools, the brain child of John A. Christianson, former Conservative Minister of Education in Manitoba, was formed in February 1970 after Christianson and his Progressive Conservative colleagues were chucked from office by the New Democrats led by Ed Schreyer. Miniskools' Ontario operations began in March of the same year when they were granted an extra-provincial license. And that's when the fun began.

### Single handed lobby

John Christianson is believed to have lobbied almost singlehandedly for changes to the Ontario Day Nurseries Act around June 1974. An intergovernmental task force of "experts" was said to have advised Social Services Secretary Margaret Birch as to the amendments, but their report has never been revealed. Birch claimed that it was secret Cabinet material, which at the time brought hoots of laughter from the Opposition benches. Finally someone broke the veil of secrecy over the task force.

Glen Bonham, a task force member, told the Globe and Mail in June 1974 that large private daycare operators, John Christianson included, pressed for lower standards. At the same time a federal report on daycare standards recommended ratios lower than those proposed by the Ontario Ministry.

The province defended their changes to the Day Nurseries Act with only one report, a Canadian

Council on Social Development committee study in which Christianson participated. Christianson is reported to have influenced the committee to support looser ratios despite opposition. Elody Scholz, a daycare consultant who later worked for Miniskools said that, for the sake of consensus, the committee settled for a teacher-child ratio of four infants to one teacher, up from three to one, though Christianson would have preferred six to one.

Christianson sought to establish an association of private daycare operators. Some talks were held but the association never saw the light of day. Many of these people believed Christianson was trying to use them as a lobby for higher ratios and lower standards and subsequently joined daycare workers and non-profit daycare centres in their

opposition to the government's changes.

Veronica Roynon, owner of a private daycare operation in Leaside at the time, said she saw no justification for altering ratios since the number of children in a centre is dictated by the size of the building. Savings from the Day Nurseries Act changes, said Ms. Roynon, would result from cutting staff and other costs. These savings could go to parents through lower fees or they could go to profits.

### 800 per cent more

Miniskools have frequently been inspected by the Ministry of Community and Social Services regarding violations of child-staff ratios. According to the Minister responsible, Keith Norton, inspectors have visited six of the centres twenty five times each in the past three years be-



Demonstrators march against proposed revisions to the Day Nurseries Act in 1974. The revisions put forward by then Minister of Community and Social Services Margaret Birch, were thought by many to favor the interests of large commercial daycare operations like Miniskools.



cause the firm had a higher ratio of children to staff than is set out in the Day Nurseries Act. Yearly inspections are the standard.

Now Miniskools is alleged to have misrepresented financial information in its subsidy contract with Metro Social Services Department.

In March 1978, Dan Heap, a city alderman with a seat on Metro Council, received budget information from Miniskools in a form that did not allow comparison with other private daycare operations. Heap questioned many of the budget items, believing they were inflated.

At the same time Ross McClellan, MPP began asking questions concerning Miniskools at Queen's Park.

### False data alleged

Heap contacted Elody Scholz who offered to make public her criticisms of Miniskools. At a meeting of the Metro Council Committee on Housing and Social Services, Scholz alleged that Miniskools had submitted false financial data over a three year period for the purpose of obtaining a fattened subsidy contract from Metro. Her allegations were based on computer printouts of financial records that itemized the operating costs and revenues of Miniskools. She presented this information to the Committee on March 9, 1978.

In July 1977, Miniskools applied to the Supreme Court of Ontario for a temporary injunction prohibiting Ms. Scholz from revealing certain financial and other documentation. The injunction has since been made permanent. One of the enjoined items (prohibited from public discussion by the injunction) is a "Confidential correspondence and report to R. Summers, Chairman of the Metro Committee to review daycare costs in the City of Toronto." Said Ms. Scholz in response to this item, "Perhaps Mr. Summers will explain what was so confidential about his relationship with Miniskools."

Ron Summers, alderman in North York, was appointed as a subcommittee of one of the Housing and Social Service Committee and wrote a report favourable to profit making daycare service. During his re-elec-

## The Corporate Connection

Miniskools has interesting corporate connections. Incorporated in Manitoba in February 1970, it is controlled by two companies, Second Venture Enterprises Ltd. (incorporated Jan 8, 1970), and Primary Holdings Ltd. (incorporated Sept. 20, 1970). Great West Life Assurance, which has its head office in Winnipeg, Manitoba, controls 29.2 per cent of Miniskools. A fourth company, Angliss Holdings, owns 3.5 per cent.

The former two companies do either currently or have in the past shared directors with Miniskools, as well as Miniskools sharing at least one director with BACM, a major land development company in Western Canada, that was purchased, by Genstar, some years ago. Genstar also had a large sphere of interest in land development before buying into BACM, and with its new addition, made it one of the largest land owners and developers in the Winnipeg area.

But it doesn't end there. Great West Life is controlled by 50.1 per cent by The Investors Group, a Manitoba based investment house whose transfer agent is the Montreal Trust Company. Montreal Trust Company granted a mortgage bond of \$2,500,000 for 685 Sheppard Avenue East, the Willowdale Miniskool. In the Financial Post Survey of Industrials, The Investors Group had in 1976 total assets of \$636,038,000, with a net income of \$17,734,000. This is not surprising considering it is controlled by one of Canada's largest corporate octopi, Power Corporation.

Power controls 50.2 per cent of Investors Group. Power Corporation, with assets of \$560,429,000 (Financial Post Survey of Industrials 1977), is the major holding company in the Desmarais Group, named after Paul Desmarais, Canada's top corporate banana. Desmarais currently sits on the board of directors of Great West Life. The chairman of the board is Peter D. Curry, presently the president of Power, with two others on the board that represent Investors Group's interests, C.E. Atchison, vice-chairman of Investors, and R.H. Jones, president and chief executive officer of Investors Group. □

tion campaign in 1976 Summers held a lottery and the first prize was won by none other than Irving Paisley, a former North York controller who was, in 1974, a mayoralty hopeful in that borough. Paisley subsequently dropped out because of his holdings in a couple of subdivisions that were before North York council for approval. In submitting his report on campaign contributions to the borough, Summers did not reveal the lottery ticket purchasers, though other aldermen who had held them did reveal that amount of detail. Paisley is currently working for Miniskools at its head office in Newport Beach, California.

As for Scholz, her presentation to the Social Service Committee has put her in jeopardy. She has breached the injunction and faces stiff fines or jail.

### Damning evidence

To avoid having Miniskools' artillery levelled at this author, we will not repeat in detail what Ms. Scholz has alleged, but will examine information taken from public sources that suggests virtually the same thing.

An interesting aspect of the Miniskools' operations in Metro Toronto are the land and buildings they occupy. Five of the six Miniskools centres were developed, designed and built by some of the myriad companies controlled by the Del Zotto family. The Del Zottos are well known in development and construction around Metro and more than once their activities have come under the purview of legal authorities.

Bronte Construction Company Ltd., one of Del Zotto's companies, owns the land and buildings that house Miniskools' Tuxedo Court



daycare centre in Scarborough. Likewise, Del Zotto Enterprises owns the land and built the Kingsview Apartment Condominium complex in which two daycare centres are located. Another company, Randa Developments Ltd., incorporated by Angelo Del Zotto, with directors Angelo, Elvio, and Leo Del Zotto, purchased and built the development at 555 Brimorton Ave. in which we find the Brimorton Miniskool.

It would appear that the Del Zotto strategy in constructing their buildings was to set up in-building daycare as an incentive to prospective tenants. As a means of marketing apartments to young families this was clearly an ideal strategy. Del Zotto even offered a special rate for their tenants.

Del Zotto's in-house daycare centres were incorporated under the name of Joy Del Day Nurseries Ltd. in March 1969 with Leo and Elvio Del Zotto, among others, as directors. Ten year leases were established between Joy Del and the Del Zotto building management.

Daycare must not have been the Del Zotto's bucket of cement since on August 10, 1971, the Del Zottos were replaced as the directors of Joy Del. John Christianson, Allan P. Cantor and Joan Mercer constituted the new board of directors. Simkin, Cantor, Goltsman and Rosenberg of Winnipeg, solicitors for Miniskools, assumed the legal affairs of the firm.

### Leasing terms

There is nothing particularly clandestine about special rates, Del Zotto daycare or Miniskools' subsequent purchase. What is interesting are the discrepancies that exist in the financial information Miniskools has reported and the terms of leases between Joy Del Day Nurseries and the Del Zotto companies.

A copy of a ten year lease registered on title for the daycare centre at 25 Tuxedo Court states the terms and obligations of the tenant and landlord. The tenant is a company owned by Miniskools. This lease which establishes rental calculation is compared to financial



**Miniskools has been cited numerous times for violations in teacher/child ratio. It's hard to be sure which comes first, profits or children, in the way their operation is run.**

information submitted by Miniskools to Metro Social Services on March 27, 1978.

The lease states:

"3.00 (a) during the first FIVE (5) YEARS for the term of this lease commencing on August 1 A.D. 1971, up to and ending on July 31, A.D. 1976, a monthly rental of ONE DOLLAR and FIFTY CENTS (\$1.50) per *Position\** filled at *Regular Rates†* to be paid in the manner set forth in clause 3.00 (c) hereof:

(b) during the last FIVE (5) YEARS of the term of this lease commencing on August 1, 1976, and continuing up to and ending on July 31, 1981, a monthly rental of TWO (2) DOLLARS per *Position* filled, plus an additional monthly rental of TWO (2) DOLLARS per *Position* filled at Regular Rates, to be paid in the manner set forth in clause 3.00 (c) hereof:"

There is no other form of rent paid which reflects the premises occupied, so the above quotation from the lease is referring to the only monies paid to the landlord. Given this formula, the rent paid for the year October 1, 1975 to September 30, 1976 in the Tuxedo Court Miniskool, with 142 children enrolled would be calculated thus:

10 months at \$1.50 per child per month x 142 children = \$2,130

2 months at \$4.00 per child per month x 142 children = \$1,136

Rent for year Oct. 1, 1975 to

Sept. 30, 1976 = \$3,266

The final figure arrived at should, according to the lease, be the rental

for the above time period. However, in the financial statement submitted to Metro Social Services, Miniskools claims \$9,420 as a yearly rent. That is a \$6,154 discrepancy.

### More of same

At the Queensview operation, at 1858 Jane Street, the same problem is discovered. With the same leasing provisions prevailing, \$1,472 is the true rent, while Miniskools claims rental expenses of \$4,810. The huge differential appears again in another case. At the Brimorton Centre in Scarborough, at 555 Brimorton, 66 children were enrolled for the year between October 1, 1975 and September 30, 1976, the same period as previously referred to. Applying the same formula, \$1,518 is the rent that is owed, whereas, in their application for their subsidy contract to Metro Social Services, \$4,875 is the figure submitted.

The subsidy contracts are based on costs -- whatever the operating costs are, the subsidy costs will cover those, minus whatever fees are paid by parents. Also, certain administrative costs are not allowed for subsidization. The daycare operators are allowed as well to take 10 per cent profits on costs. The higher the cost, the higher the actual profit figures. For this reason, there is motivation for an operation to inflate their costs.

Other expense items should be mentioned. These are not as clearly questionable as the rent figures, but do raise some further questions. In



the same Miniskool budget that is the basis for the 1977 subsidy contract, there is an expense for utilities for all centres. Research unearthed three leases for three of the six centres that accept subsidies from Metro, therefore this article can only refer to these centres. Two of the other three are in condominium apartment projects and the leases are publicly available. The third centre was built by Miniskools and therefore mortgaged.

### Comparison made

Comparison of two documents, "Statement of Budgetted Expenses for 1977, Based on Enrollment between Oct. 1975 and Sept. 1976" and the ten year lease (Aug., 1971-July 1981) between Bronte Construction Co. Limited and Joy Del's Day Nurseries Limited (which is owned by Miniskools) at 25 Tuxedo Court show that items claimed in the statement are of questionable veracity. For example, the budgetted item of taxes and insurance is \$6,010. The lease, however, does not totally confirm this: "5.00 (a) the Landlord shall pay, when due, all taxes, local improvement levies, rates and assessments whatsoever, whether Municipal, Provincial, Federal or otherwise, now or hereafter charged, assessed or levied against or in respect of the demise Premises, and the propoerty of which the demised Premises form a part;"

The above obviously refers to property tax and not income tax on the revenues of the business. But it has been confirmed with Metro Social Services that income taxes are not a cost covered by their subsidy. The insurance portion casts doubt upon the claim if the following is taken into consideration:

"5.00 (d) the Landlord shall insure and keep insured the Premises forms a part against damage or destruction by fire and other casualties insured under a Policy or Policies containing a standard extended coverage endorsement. Said insurance shall be in an amount equal to not less than EIGHTY (80) PERCENT of the insurable value of the Said Property. Unless the cause of any loss or damage arises out of a breach of the conditions of the Said

*continued page 20*

## Del Zotto on the Fringe

Eldel Realty, Delrom Farms, Randa Developments, Del Zotto Enterprises, Unadel Investments -- these are a few examples of the numerous construction, realty, investment and property management firms that the family of three brothers, Angelo, Elvio and Leo Del Zotto have been involved in over the last several years in the Metro Toronto area.

It was their holdings in two lathing firms that brought them into the glare of the public limelight in 1972-1973. Because of the publicity leading up to a Royal Commission on violence in the construction industry in 1973, Elvio, lawyer and one time Liberal candidate in the predominantly Italian riding of Yorkview decided to meet with Globe and Mail reporter, Gerry McAuliffe. The meeting took place after the reporter's background had been checked by a police officer turned public relations man. The purpose of the meeting was clear in the title of the resultant article: "One man's fight for his reputation".

### Spotlight on Angelo

Elvio didn't have to worry too much about his own reputation, since it was Angelo who subsequently played the largest role as a major witness in the Commission hearings and whose reputation was placed in a doubtful light. As recently as April 1976, Angelo was instrumental in the conviction of an Ontario Housing official -- the man foolishly accepted a \$500 colour TV from Angelo.

The Royal Commission was constituted and charged with reporting on the extent and reasons for violence in the construction industry. The commission was established on March 8, 1973, after the previous summer had been rocked by bombings, shootings, and burnings at various construction sites and construction related companies around Metro.

One such company was Acme Lathing Ltd., a firm that was in the midst of merger talks with two other lathing companies, Downsview Lathing Co. Ltd. and Gemin Lathing Ltd. However, prior to that, in December 1971, Cesidio Romanelli, who owned along with the Del Zottos interests in Romanelli Lathing and Durable Drywall Ltd., approached Naftali Kanner and Stan Sosin of Acme with an eye to merger.

The merger did not go through. Acme, Downsview and Gemini proceeded with merger plans of their own, but Downsview dropped out after threats over their involvement in the plan.

### Twenty eight shots

In July, 1972 someone fired twenty eight shots into the Acme Lathing offices. On Labour Day weekend of the same year a bomb ripped apart the same offices, only five days after the police had removed their twenty-four hour surveillance of the building.

Naftali Kanner, president of Acme, became concerned and called Max Tannenbaum of Pinetree Developments. Kanner believed that Tannenbaum could help find out the source of the violence. Tannenbaum testified to the Commission that he called Angelo Del Zotto.

Angelo Del Zotto, who was well acquainted with Romanelli at the time, according to Tannenbaum, said that Romanelli had done a lot of work for the Del Zottos. "We definitely helped them financing," Angelo said. "As far as having shares in that company Elvio would be the chap who would know that."

The Royal Commission raised more questions about the organization of the construction industry in Toronto than it answered. No charges resulting from commission findings were ever laid against major people in the Toronto industry. □



## Bachelorette by-law not enforced

# Housewife's suit blocks builder

By R. Dickson

On 30 May 1977, Nellie Kuzmich, Parkdale housewife, sued Elross Investment Corporation Limited and the Corporation of the City of Toronto and obtained an interim injunction ordering Elross to cease work on 72 Spencer Avenue.

On 17 June, Mr. Justice John Osler asserted, "I am persuaded that the application made on behalf of Elross Investment Corporation Limited for a building permit was so patently erroneous in respect of ownership, type and quantity of work, type of occupancy and cost of proposed work that the permit based upon it should not have been issued." He ordered that "the work shall be suspended until trial or until a new and sufficient building permit is issued by the defendant City upon proper application and otherwise shall continue to trial."

### Nellie's suit

Nellie Kuzmich, in her suit, asserts that it was the intention of Elross to create bachelorettes at 72 Spencer. In her Writ of Summons, she states her case:

- 1) the development would create overcrowding of the area and the likely result would be considerable noise and disturbance from large numbers of tenants.
- 2) 36 rooms would create a severe parking problem and there are no adequate parking facilities provided at 72 Spencer.
- 3) the reconstruction as a bachelorette development would be damaging to the character of the neighbourhood.
- 4) the ongoing construction work interfered with her use of her own premises and the debris resulting from the removal and alteration of the wall facing her home landed on her property and prevented her from using the entrance to her home.

5) the extensions and reconstruction diminished the sunlight on her own property.

Elross replied that a continuance of the injunction pending trial would be a hardship to them in that it would cost them several thousand dollars in financing costs, loss of potential revenues, security and maintenance costs, loss of contractual commitments, their reputation, give them the potential of mechanics' liens against them and potential foreclosure proceedings from the mortgagor.



**Nellie Kuzmich describes her experience of living next door to a bachelorette conversion. Work on the site has been halted since May 77 as the result of her suit.**

In June 1977 an Examination for Discovery was held and Mrs. Kuzmich described the experience of living next door to the site: "My house was shaking. There was huge trucks coming and brings this load of bricks. Bricks falling, cement on my walls. He didn't put in no barricades, nothing. ...I call the inspector, they were there 3 times and no one was taking any action. ...The first thing the house vibrates, and the second thing from that, the

floor, the basement floor cracked, right from the corner, and the water was seeping." She said the crack was about 6 inches or so in length and happened in the middle of April. "The second inspector told me to get a contractor to see to it, because in time, my house is going to slide down, because it's undermining the foundation."

On 30 March, she wrote a letter to the Secretary of the City's Building and Development Committee describing the bachelorette development happening next door. The east, south and west walls had been demolished, the roof was off and the inside walls were gutted. The building was being extended 20 feet; at the front, it was 4 feet closer to the lot line and there was to be a new storey on top -- this was cutting off her sunshine, light and view. "How could he get a building permit without consideration to us. Why not we have rights to enjoy peace and sunshine in favour of absentee landlords?" Mrs. Kuzmich asked.

### No action by city

On April 13, she engaged a solicitor who wrote a further letter of objections concerning the reconstruction and use of 72 Spencer. Nonetheless, the work continued and the City took no action to restrain the developer. On 28 April, she wrote another letter to the Secretary of B&D urging the City to take action to ensure compliance by the developer. Finally, On May 27, she applied for an injunction.

"I live for so many years and now man without any consideration and he doing whatever he pleases. He is absentee landlord. I live in there, that's my home for years and years, and we build it, and we clear up and my place is nice, why should I be abused like that? Putting up, why didn't he put the building beside his mother's house rather than beside mine. It would be much better."



## The Parkdale Scene

In the South Parkdale area, there are a minimum of 100 properties that have been identified by residents as having been converted to bachelorettes. This would mean 2,000 to 2,500 bachelorette apartments in an area of 35 city blocks. In the report of the Commissioner of Planning to Toronto's Buildings and Development Committee on 10 August 1976, bachelorette development:

- 1) replaces family housing in existing single-family and absentee owned housing with housing for single people in small 'luxury' bachelors;
- 2) replaces low-to-moderate income housing for single people in the form of traditional rental rooms (costing \$12-20 per week -- note 1976 figures) with moderate to high income bachelor units (costing \$30-60 per week).
- 3) by catering mainly to moderate to high income people, they are likely to result in a much higher car ownership per unit ratio than was obtained in the former dwelling house, thus aggravating the problem of parking.
- 4) results in considerably increased unit density and population density in low-rise, low-density areas, thus placing an added pressure on existing, inadequate park and recreational facilities.
- 5) requires certain permanent alterations in the internal physical arrangement of the dwelling house for the creation of bachelor units that reduce the flexibility of the dwelling for a variety of residential uses.

At that time, the Commissioner of Planning estimated that non-family households comprised over 60 per cent of all households in the neighbourhood, though part of this would be in the traditional forms of single accommodation.

In June 1977, Dennis Williams was examined under the discovery rule and stated that he had been a Zoning Plan Examiner for the City for 11 years and had approved the building permit for Elross so far as the zoning bylaws were concerned. When asked, "If the plans showed the sink unit, and the refrigerator and a hot plate unit, would the plans have been approved?" he replied, "No, it's departmental policy with the providing of that, if I can call it that, would be a -- if you can call it a kitchenette -- would create a dwelling unit." "They're bedsitting rooms, clearly identified on the drawing as bedsitting rooms... These drawings show bedsitting rooms with bathroom."

### No permit

William Cowie is a Building Inspector and in June 1977 had been with the City for 11 or 12 years. He first went to examine the premises on 16 March, 1977 and he thought it might have been because of a complaint since the permit was not is-

sued until 29 March. He entered on his card "removing existing partitions". On 23 March, he again went to 72 Spencer and this time, he noticed that work had begun prior to obtaining a permit -- a violation of the bylaws. The roof and interior partitions were being removed. He issued a "Stop Work Order" and Elross's Construction Superintendent on the site signed Cowie's card in receipt of the order. However, he further stated, the subsequent issuance of the permit dealt retroactively with that violation.

Apparently, it is common practice for builders to start before they receive their permits and the Buildings Department commonly issues permits to cover this kind of violation. When asked, he commented, "I would say basically the work was being done and carried out, even up to now, as according to the plans approved." Later on, however, he commented that he didn't that the roof had to be removed and that he felt it was going further than called for in the initial application.

On April 7, he issued another "Stop Work Order" and when asked who would be responsible for lifting it, he replied, "I don't think it really matters because they keep on working anyway. I never said they stopped work." "Yes, that's in contravention of the bylaw. There is nothing we can do to physically stop people from working. We can give them the "Stop Work Order" but if they keep on working, we have nothing further than court action."

He had no knowledge of damage being done to either of the properties north or south of the site in question. Mrs. Kuzmich invited him in one day and asked him to come down to her basement where he saw a crack about 1/8 inch deep and 6 to 8 feet long but it didn't look new to him -- "can't honestly say it was caused by the construction next door" which was some 8 feet away from her building. Mrs. Kuzmich mentioned that water had come through, but there wasn't any there when he saw it.

### 'Not my department'

William Cowie also stated that it was part of his job to inspect where demolition takes place. When asked, "Would the particular project at 72 Spencer have required a demolition permit?", he replied, "I don't issue the permits. To me a demolition is taking something to the ground and I couldn't see the tie up between demolition and removing some partitions, like I said, I don't issue the permits so I don't know what the demolition permit would be for."

Cowie says that he has been with the City for 18 years. He knows nothing about the zoning by-laws, the lodging house by-law, the plumbing permit by-law or the planning act. He does have knowledge of the demolition by-law and the Ontario Building Code.

Residential Building permits are not issued as of right by the Buildings dept. but must receive the approval of City Council. Under such circumstances, aldermen and local residents would have occasion to examine the plans and intentions of the developer.

David Solomon, Secretary-Treasurer of Elross Investments, was



asked by Brian Bellmore, counsel for Nellie Kuzmich: "Aren't you putting up a brand new building?"

Solomon: "No."

Bellmore: "How much of the old building remains?"

Solomon: "I am not answering that question."

Bellmore: "You're refusing to answer that question?"

Solomon: "Definitely."

Bellmore: "I suggest that less than 10 per cent of the old building remains and that you have gutted it. And you're putting up another building."

Cooper, Counsel for Elross: "The position of this defendant, Mr. Bellmore, it is constructing alterations and additions in accordance with the approved plans of the City of Toronto. As to the percentage of what there is before and what there is now, that particular question can't be answered with any degree of accuracy, and I am not letting the witness answer or guess."

### Renovation underestimate

When building permits are issued, a fee is paid by the applicant to the City and this fee is calculated on the projected costs of the work. Elross had originally estimated that there would be approximately \$15,000 worth of renovations. On 22 April, Commissioner Hadley reported to the Buildings and Development Committee that the total estimated costs for the permits that had been issued to that date had been revised by the City to \$67,440.

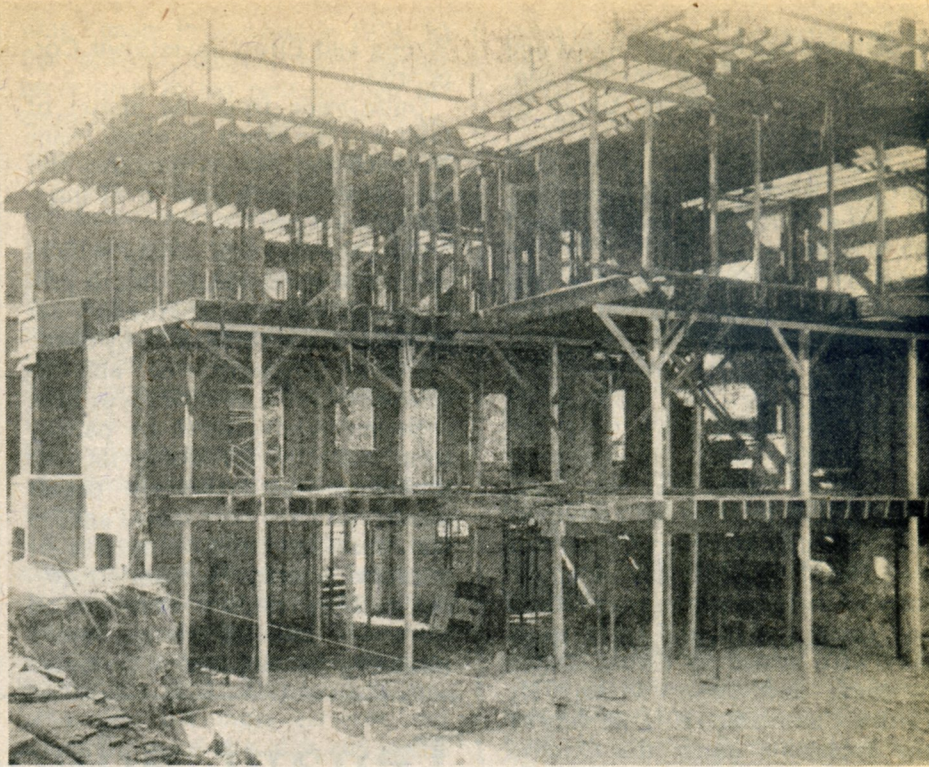
Having obtained no answers as to what percentage of the original building remained, Brian Bellmore than asked for the books and records of Elross Investments. Cooper refused to provide them.

Bellmore: "One of the primary allegations in this matter is that there has been gross misrepresentation by the applicant in its application for the permit in respect of costs."

Solomon: "I will give to the City at the time we are finished an audited statement and at that time, you may have it too."

Bellmore: "I want the books and records of what you have spent on this building to date. Are you refusing to produce those?"

Eventually, Cooper promised to re-



A rear view of 72 Spencer Ave. showing massive renovation work. Nellie Kuzmich, who lives next door, claims it to be an illegal bachelorette conversion.

view the cheque book and advise accordingly.

William Harper, in his capacity as Structural Planning Examiner for the City, estimates the costs of the construction work called for in a permit application. On or about 29 March, he stated, he changed the \$15,000 cost figure submitted by Elross. Unfortunately, however, the clerk did not charge the revised cost. When asked, "Would you agree that it is required under the Ontario Building Code Act and regulations to that act, that an applicant provide an accurate declaration of the value of the work?", he replied that it was.

William Harper stated that he has nothing to do with the zoning requirements, enforcement of the plumbing by-law, demolition control by-law, planning act, or the housing standards by-law. He just deals with the Ontario Building Code.

Patrick Burke, Supervisor of Permit Control, was asked by Cooper, counsel for Elross, "If everything else goes through Zoning and Structural and the figure put in the ap-

plication as estimated cost is wrong, does that prevent issuance of the permit?", he replied that it does and that before the permit could be issued, the applicant would have to pay the balance of the fees outstanding.

In November, 1977, Elross asked leave to introduce additional evidence, that the original decision to uphold the injunction had been a result of inadequate and incomplete information. Justice Osler, however, dismissed the application, saying that the material must have been known to them at the time of the original hearing. Later in the fall, Mrs. Kuzmich brought a further motion to add John Wrona and David Solomon as party defendants and asking for an order allowing the original Writ of Summons to be amended for additional causes of action. The amendments were:

- 1) damages against the City of Toronto for negligence in failing to ensure compliance,
- 2) damages against John Wrona for deceit,
- 3) damages against John Wrona and David Solomon for wrongfully conspiring to effect an unlawful project,



4) damages against John Wrona and David Solomon for wrongfully conspiring to effect a lawful object by unlawful means.

On 27 January, Mr. Justice Garrett gave leave to add Solomon and Wrona as defendants and to amend the Writ as asked.

On 11 May 1978, almost a year after the situation was put before the courts, the City Solicitor, W.R. Callow, Q.C., submitted a statement of the City's position. He denies that the permits were obtained illegally or issued negligently and further denies that Mrs. Kuzmich had to be afforded an opportunity to be heard before the permits were issued. The City had no knowledge of material misrepresentations and errors and that if there were, they were misled by Elross, David Solomon and John Wrona. He further claimed that it is the duty of the applicants under the Ontario Building Code Act and the Criminal Code to furnish truthful and accurate information. City staff were not negligent in that they followed a proper, established procedure of inspection and enforcement under the by-laws, rules, regulations and statutes within their jurisdiction.

Perhaps the most controversial factor in the City's statement is its assertion that, in law, it has no duty to enforce its by-laws and that it cannot be found negligent for failing to ensure compliance. He states that any such duty is discretionary and that they are not liable for failure to exercise that discretion; this duty is a public duty for breach of which Mrs. Kuzmich has no status to bring an action. Demolition and construction at 72 Spencer could not have constituted a nuisance to her. If, however, Mrs. Kuzmich does have a cause of action against the City, he alleges that such damages were suffered as a result of negligence by David Solomon, John Wrona and Elross Investment Corporation Limited and the result of civil conspiracy between David Solomon and John Wrona.

Mr. Callow then concludes that, if Mrs. Kuzmich does have a cause of action against the City, he adopts her statement and claims indemnity over against David Solomon, John

Wrona and Elross Investment Corporation.

Quite aside from the matter of fault and the extent to which Nellie Kuzmich may recover damages, this case raises quite a number of interesting questions:

Since the City sets zoning by-laws to control development and to protect its citizenry, should the City not be obliged to enforce those by-laws?

Should developers be able to ignore by-laws (i.e. building without a permit) and receive no penalty from the City for doing this? It should be noted that the permit should not have been issued and, in fact, there have been a number of instances in which bachelorette developers have rebuilt a whole project without a building permit, sometimes in gross violation of the build-

ing by-laws and then the building is left abandoned and useless to anyone.

Is it possible to control developers if they flout by-laws? What constitutes building without a permit? Does that include the removal of interior partitions or does it only occur when the roof is being removed?

Why should a city inspector, whose job includes inspection of demolitions, not know what constitutes a demolition?

To what extent should people be subjected to nuisance from construction near them? What right does a homeowner have to sunlight on her property?

The trial date for this suit has not yet been set. □

## Tenant advocate opposes scrapping rent program

By Ann Harriman

Has rent review curtailed development of adequate housing? To some extent it has. But one must also recognize other factors that have had a far greater influence in bringing about the disastrous state of the development industry.

To start with, the actual cost of land and construction has more than doubled in the last twelve years. In 1966 land cost per unit was approximately \$4,500 and building costs around \$12,500. By 1977 the costs for land had grown to \$9,000 and building costs had increased to \$27,000.

### Dramatic rise in costs

These costs reflect, to some extent, the Federal Government's efforts at price stabilization which by 1975 had raised mortgage interest to 12 per cent and higher. In the late fifties and early sixties comparable interest was 6-7 per cent. The change has had a significant bearing on rents, fifty per cent of which goes to pay mortgage interest.

The cost of construction has also risen dramatically. In the past the

use of immigrant labour in construction helped keep the cost down. But as demands for higher wages, as the result of unionization, labour costs escalated. Adding to the problem federal and provincial taxes on construction also decreased the affordability of new housing.

### American dream

It has traditionally been the North American dream to own one's home and little encouragement was needed to have people invest savings in the buying of homes. The trend that had started after the second world war towards bigger and better housing had by the mid-sixties reached its peak. Government agencies, municipalities and developers competed with one another for greater floor space, larger lots, more garage space and more elaborate plumbing and services. At this point few people had the foresight to see the inevitable outcome.

As the price of lots jumped ever higher only the more expensive type of housing could absorb the inflated costs. Apartments and high



rises fast became an attractive form of accommodation. More people chose rental housing, life styles were changing, more and more young people were coming into the province. The trend turned toward multi-unit development.

By 1975, rent soared as landlords and developers attempted to recoup the same rate of profit available during the boom period of the 40's, 50's and early part of the 60's. At this point tenants cried "Enough", with a provincial election and the Anti-inflation Board in the offing, rent review was all the platform that was needed for instant electoral success.

### Need unchanged

Have the conditions which made rent review a reality been modified? Statistics would suggest that for as long as housing is unaffordable there will be a need for rent review. According to the Province's Green Paper on Policy options for Contin-

uing Tenant Protection, in 1974, 30 per cent of tenants were paying more than 25 per cent of their income in rent. It is reasonable to assume that today, these percentages are even greater especially if one takes into consideration the controls on wages and steady inflation. More than 35-40 per cent of tenants may be paying more than 25 per cent of income in rent. One answer could be rent subsidies, but this solution is highly questionable since the people in need of subsidies have to pay higher taxes needed to support the very programme established to help them.

The time has come to rethink our economic attitudes, for, as comfortable as the old school may be with a monistic system, the monistic system of economics is as dead as the Do-do Bird. This system suggests that the more services and goods provided at a high and stable rate of profit by private business (housing included) and not govern-

ment the better off a country's economy is. But one has to consider that social responsibility and socially justifiable activities are not achieved through the pursuit of profit.

This helps to explain government involvement in programmes such as unemployment insurance, provincial medical insurance, senior citizens' pensions and the existence of Crown corporations particularly in the field of utilities. The Provincial government has been forced into moral and political responsibility, demonstrated by its status as one of the largest landlords in the Province and the rent supplement programme it provides to senior citizen, non-profit and cooperative housing.

### What are the alternatives

The question should not be whether Governments have a responsibility to provide housing; that has already been established. Questions the Government should be asking are, what are the alternatives? How can housing be made more affordable?

Limited dividend housing programmes, if controlled to be just that -- limited profit -- should be considered. Tax bonding, a system by which bonds at low interest rates are borrowed from government with business's taxable income, instead of paying tax on it, is another possibility. This could give the Government a source of inexpensive money; which in turn could be applied to mortgage financing, decreasing the interest rate by a possible 5-6 per cent. This could also be extended to Municipal Governments with a view to reducing realty taxes. Once again a reminder, 50 per cent of rental costs are taken up by interest paid on mortgages.

Strong action could be taken to lift the 11 per cent tax on building materials on housing for low and middle income groups. Equalization of assessment on rental housing and home owner housing would also affect the affordability factor. The Government should be working towards decreasing the need for subsidies. Decontrolling of rents will not put more housing on the market until the cost of housing is brought into line with incomes. □



You can help us by sending captions for this cartoon. On the left we have the "honourable" Conservatives and on the right is a "poor" landlord. Send captions to **Tenant Hotline**, 2611 Eglinton Avenue West, Toronto M6M 1T2. Our phone number is 656-5500.



*"Like refugees in a war"*

# Memoirs of a blockbusted tenant

By S. Morrison

*The last old houses of St. James Town have now disappeared. High rises as far as the eye can see stand where a neighborhood of row houses once thrived. But the development of St. James did not come without a protracted struggle between tenants and developers.*

*Sara Morrison, a long time Toronto resident, who lived through the stormy days of block-busting and tenant struggle reminisces about her experiences on the move before the developer's hammer.*

Land speculation, blockbusting and the deliberate deterioration of neighbourhoods go back many years in Toronto. My own recollections of this process date from 1955, when I first came to live in the city. In those days the corner of Dundas and Jarvis had the reputation of being the toughest in Canada.

My first memories of blockbusting are in the St. James Town area. William Dennison, later a pro-development mayor, was the focus for anti-blockbusting forces. He uncovered incidents that indicated an unhealthy liason between some city bureaucrats and the land assemblers. He pointed out the close relationships between the blockbusters and some important city politicians.

## Landlord lucky

The notorious "Parliament Syndicate" fold amid flurries of publicity, but the assembly of St. James Town went on, often with the blessings of the City fathers. Housing that had served the working class for many years was torn down, or fell into the hands of land speculators, who allowed the houses to deteriorate.

I had been living in the inner city

all during that period and had been lucky with my landlords. I had been charged reasonable rent for reasonable accommodation and I had no personal reason to join the fight. That was to change.

I left Toronto in September of 1959 and did not return until 1964. By then all hell had broken loose. I went to live at 240 Willow Ave., a two-story brick house on a pleasant working class street in the Beaches. The house was situated at the top of a hill, a five minute walk to Balmy Beach. We rented the top floor -- three rooms, a balcony, kitchen and bath with use of the back garden -- for \$85 a month. The landlords appeared to be James and Barbara Howser, a pleasant young couple with a small child and another on the way.

## Mortgage insecurity

However, not too many months passed before it became apparent that they were very insecure about their new home. They were becoming very concerned about their second mortgage on which payment would be due soon. I had been a law clerk for a large law firm, and offered to write a letter to their solicitor to try and clear up the matter. It soon became apparent that they had no solicitor. The lawyer who had acted on the sale and the two mortgages had acted for both parties. In other words, no one was about to protect their interests -- and God knows, no one did.

They had apparently responded to an ad in the real estate pages advertising the house for a very low down payment and a very long time to pay. They had calculated that their mortgage payments and other expenses would amount to no more than they would have to pay in rent. They hadn't, however, calculated in the second mortgage payments pro-



perly -- and most important, hadn't realized that work orders would be issued against the house.

Elmglo Investments Limited bought the house on June 29, 1964 and sold it to the Howsers on July 22, 1964. Elmglo took back the two mortgages on the purchase.

## Real owner

In April of 1965 I finally met the real owner of 240 Willow Ave. -- the power behind Elmglo Investments. I happened to be looking out the front window when I noticed a late-model Thunderbird drive up to the front and a portly young gent get



out. I didn't pay much attention and went on working. About an hour later there was a knock on my door, and there he was -- Bill Stein -- bon vivant and raconteur.

He introduced himself and stepped past me and began inspecting the premises. As he looked around he told me how lucky I was to be an artist. He said that he had graduated from art school, but that dedication to his mother had forced him into business against his will. He also told me that he was the new landlord and that rent would now be payable to Elmglo Investments. He took my rent for May and gave me a phone number where he could be reached.

As soon as he had gone, I went downstairs to find out from the Howsers what had happened. To this day I don't know what he said to them, because they were gone. The place was completely empty. Later in the week a police officer came looking for them. Their car had been found abandoned on a side street, and police were trying to find them to take the car away. I couldn't help -- and in any case I was beginning to have troubles of my own.

The sewer backed up and flooded the basement. We were living over an open cesspool. I called the num-

ber I had been given and left messages with the woman who answered the phone, with no results. I called the city -- no results. I called the province -- no results -- my troubles were only beginning.

### Knock on door

The next knock on my door at eight o'clock that night was from a man from the Toronto Hydro, whose job was to cut off our electricity for non-payment. I protested, of course. I am still grateful to that man -- when I told him that my rent was paid he agreed to check into the case, and we were reprieved, even if only for a while. In the whole hassle, he was the only bureaucrat who was ever sympathetic to us. Consumers Gas was not nearly so generous. The gas was just cut off.

It became clear that no one would help. That in spite of the rent being fully paid, we had no rights -- so we moved.

Later, when the newspapers indulged themselves in yet another "slums" inquiry, it became clear why Mr. Stein was so unresponsive. He, his brother Gerry, the whole group of Elmglo, Mapleglo companies, and many other individuals and companies too numerous to mention in this article, became the

centre of a series of inquiries done both at city hall and by the Attorney-General's office. As far as I can tell, the only one who "paid" was the lawyer for Elmglo Investments. By then he was a sick man. He had previously had a good reputation, but he died in the Kingston Pen.

I learned something then. I learned what it's like to be exploited and to be powerless to do anything about it. One lesson would have been enough, but the fates wouldn't have it that way. In any case, I was beginning to think that it wasn't so much the fates as the corporations.

### Many evictions

After several enforced moves we were now living at 32 Cecil Street. We had a large second floor apartment with a balcony and a rent of \$185 a month, plus gas, plus hydro. In spite of the increased rent, it suited us admirably. However, Toronto Hydro expropriated all the houses on the block for a pumping station. The final day, when we all moved out at the same time, was one I will always remember.

We were like refugees in a war. Most of us had been there only a few years, but Mrs. Yolles had lived in the house next door to me all her life. She was now into advanced old age. An ambulance took her away. The rest of us made it on our own.

A lot of things came to a head in the summer of 1970. Ontario Hydro assembled forty-two houses in the North Grange and evicted everyone. People in South of St. James Town were trying to resist the brutal evictions happening there.

Someone asked me if it was possible to find out who Meridian really was. The skills I had learned as a title searcher became very useful, and by doing land and corporation research I began to understand for the first time the relationships inherent in the corporate structure. I began to realize how the patter of the business community about good corporate humanism was just empty public relations to cover the brutality and greed of the development industry.

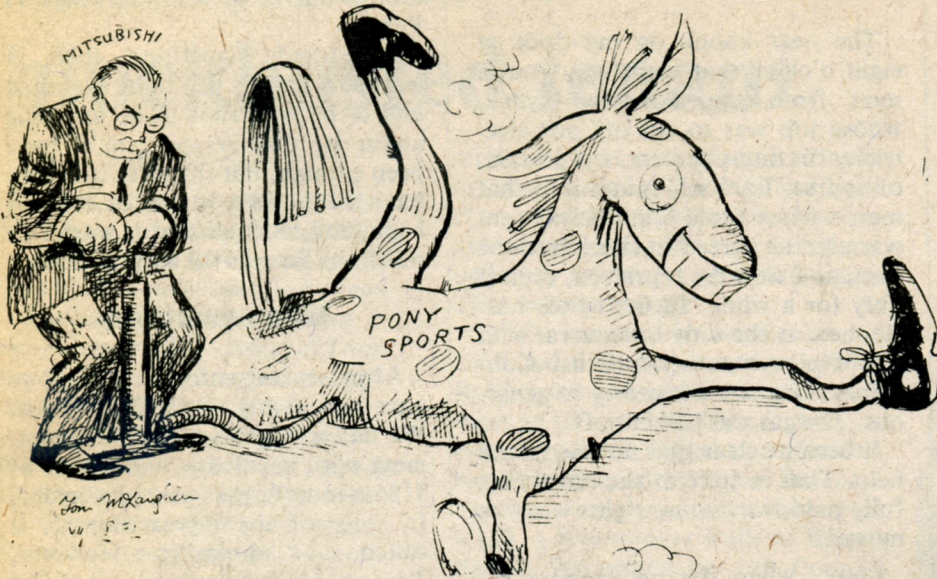
Development Corporations, like all corporations, function to make a profit. Their commodity is housing and land. □



A last remnant of the bygone days stands monumentally before a present day St. Jamestown highrise.



# Financial woes at Pony are clouded by shift in ownership



By A. Mason-Apps

In July 1977 Canadian Press beamed another story across Canada featuring Tory Tom Cossitt's exploits in the continuing story of Trudeau's travesties in Ottawa.

This time it involved two high ranking Liberal party officials and the rescue of the financially troubled Pony Sporting Goods Ltd. Cossitt told the Commons that Liberal Party Treasurer, Gordon Dryden and Senator Keith Davey, a senior Liberal campaign manager, owned more than 20 per cent of the company's shares.

## Ownership in doubt

Pony is the company whose products outfitted the Canadian teams in the summer and winter Olympic games, the Pan-American Games and the Toronto Olympiad for the physically handicapped. A cease trading order by the Ontario Securities Commission was lifted against Pony, this past December, at which time missing financial reports and auditors' statements were finally filed with the Commission. But questions still exist as to the company's ultimate ownership.

Cossitt claims that Pony has been purchased by a Japanese firm. Al-

though Cossitt has been refused access to Foreign Investment Review Agency files, evidence from the Ontario Securities Commission indicates that C.I.T.C. of New York, the marketing arm of Mitsubishi of Japan, now owns Pony.

## Biggies on board

In spite of the initial endorsement of the federally backed track and field association of Canada, Pony Sporting Goods' history has been full of conflict. By August 1974 members of the board included Irwin Wolfe Pasternak, senior partner in the law firm of Blaney, Pasternak, Smela, Eagleson and Watson, (the firm that represented Jimmy Black in the Burlington Square-Unity Bank fiasco), Robert Gordon Orr, a well known professional hockey player, Robert Alan Eagleson, at the time also a senior partner with Blaney Pasternak, and the Hon. Keith Davey, a senator of Canada since 1966 and a communications Consultant since 1969. They stayed on the Board until the recent changes forced by the company's creditors.

Some of the formerly missing information includes financial reports

on the elusive and mysterious Pony International Ltd. International was incorporated on the 20th of June 1974 under the laws of the state of Delaware, which is known in financial circles as the Liechtenstein of North America. International was 50 per cent owned by Pony Sporting Goods, and 50 per cent owned by C.I.T.C. of New York.

On October 22, 1974 it acquired from Pony Sporting Goods the rights of the company for all the countries in the world, except Canada, to all of the Pony trademarks.

## \$30 mill in sales

Over the next two years agreements were signed with Sears Roebuck of the USA, Yardley's of London, Sekaiccho Rubber of Japan, and Kenney Shoes of Australia. In December 1975 the chairman of the board estimated that Pony International's sales under these contracts would exceed \$30 million.

By August 1976 negotiations had also been finalized in New Zealand, France, Belgium, and 17 countries in French speaking Africa. Agreements in the final stages of negotiations included Germany, Austria and Switzerland.

However in spite of all this activity, the long awaited audit for December 1976, by an independent New York auditor, shows a shareholders' deficiency of \$418,681.

It is clear that by February 1975 Pony Sporting Goods was already in serious difficulties. At this time Farlyn Industries Inc. invested \$300,000 in exchange for a debenture and a trust voting arrangement. The debenture falls due in February 1980.

In 1976 the financial difficulties continued as a result of operating losses and expenditures by Pony International in promoting the name of the Olympic games. In late 1976 Unity Bank (its banker) and Mitsubishi International Corp. (its manu-



facturer) advised Pony that its credit would not be extended. New banking arrangements were drawn conditional upon the debt to Mitsubishi being at all times as great as the debt to Unity Bank.

In addition CITC agreed to advance up to \$150,000 for debentures convertible into shares, and payable on demand. As part of the arrangement Farlyn transferred the major-

ity of its \$300,000 debenture to CITC together with its rights under the voting trust agreement. The effect of these negotiations was to transfer control of a much promoted Canadian Corporation to a Japanese multinational.

Who does own Pony? Recent claims that it is still a Canadian owned corporation are contradicted by the Ontario Securities Commis-

sion information. There is speculation that the crash of the Unity

bank, Pony's major creditor, pulled the plug, necessitating the quick sale of the company. If this is the case, Cossitt's claim, that the cabinet bailed out those high ranking Liberal Officials involved in Pony by permitting a foreign takeover, is worthy of further consideration. □

## Saga of Michelle Sindona Stirs the Financial World

By A. Meisner

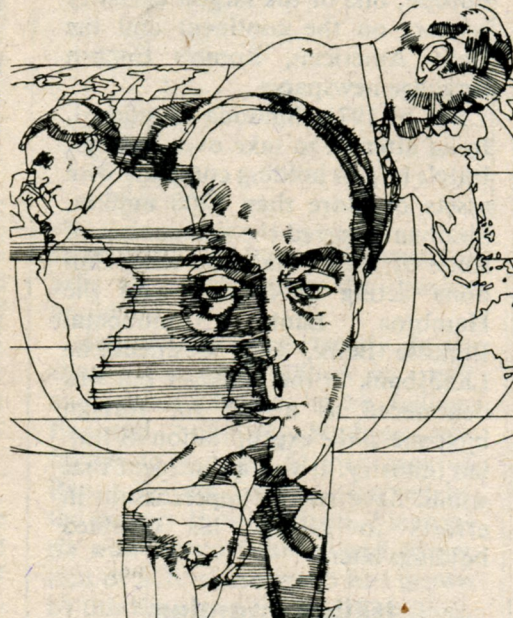
Michelle Sindona, alleged to have transferred \$250 million from his banks into personal holdings, has been ordered extradited to Italy by a federal court judge in New York. The international financier has sought refuge in the U.S. since the collapse of his empire in 1974.

The man with the "Midas touch", investment advisor to Popes, large contributor to the Christian Democratic Party in Italy and the Nixon White House in the U.S. has already been convicted by an Italian court on twenty five counts related to the fraudulent management of his banks.

### Owned the Watergate

At the peak, Sindona controlled the world's largest real estate company, Societa Generale Immobiliare (SGI), owners of the Watergate in Washington, the Stock Exchange Tower in Montreal, and Marina Del Rey in Los Angeles. Other holdings included Argus Inc. in the U.S., owner of the Toronto Seaway Hotels, and banks spanning two continents including the much publicized Franklin National of New York, whose collapse caused a major ripple in banking circles around the world.

Sindona's name is not unfamiliar to Canadians after his wheeling and dealing, along with Norton Cooper over control of the Toronto based Seaway MultiCorp in 1969. Now he has been mentioned in connection



with the super swindle of \$400 million from the Swiss Credit Bank in 1977.

### Sicilian saga

The Sindona saga is already legend in financial circles. The son of a Sicilian farm worker, Sindona acquired a personal fortune of more than \$450 million through banking, real estate and stock trading activities. Educated as a lawyer, he specialized in tax problems, but spent the war years trading produce with the allies.

After the war Sindona moved to Milan, became part of an established law firm and forged a reputation as a brilliant tax lawyer. "He would create a holding company here, a subsidiary there,

move some funds to a third location then pay dividends back to the holding company," a Milan banker told the Wall Street Journal. "By the time he was through there were hardly any taxes to pay. The people around here just loved it."

In 1959 Sindona set up a personal holding company in Lichtenstein, a traditional European tax haven. Fasco A.G. was to be the vehicle through which Sindona would integrate his evergrowing holdings.

Through Fasco Sindona acquired controlling interests in Banca Privata Finanziaria, Banco Unione Societa Generale Immobiliare with help from the Vatican.

### Pope's pal

The Vatican through its financial arm, the Institute of Religious Works, is said to have deposited a large amount of money to help float the Banca Privata Finanziaria when Sindona first moved in. The Vatican also held interests in both the Banco Unione and Sindona's Banque de Financement (Finabank) in Geneva.

So close was he thought to be to the Vatican that in 1969 when he purchased the Vatican's one-third share in SGI, rumour had it that Sindona signed the final agreement with Pope Paul VI himself, in a secret night meeting. Sindona says no. "It was with Cardinal Guerri," head of the Papal investment portfolio.

It is widely believed that Sindona financed much of his operations with money belonging to rich Euro-



peans and Italian politicians looking for investments in which they could avoid taxes. But the man who boasted that he could raise a couple of hundred million with a few phone calls was reticent about the source of his capital. "I could move over \$100 million into American investments now," Sindona told Businessweek in 1972, "if only the Securities Exchange Commission would not force me to say whose money it is."

Many of Sindona's early financial coups were accomplished during Milan's post-war real estate boom, according to Dan Cordtz writing in Fortune. He also perfected the technique of acquiring troubled companies, dividing them up and selling off pieces, or merging them with others and taking his profits quickly on the apparently improved prospects.

### Fast dealing

In one such transaction involving the Brown Corporation, a New Hampshire paper manufacturer in which there was at one time a large Canadian interest, Sindona doubled his investment. Sindona directed Brown in the acquisition of a number of large and small European paper manufacturers including Saifecs, a Milan Fibre board producer. Brown stock during this period rose from \$16 to \$27, at which point Sindona sold his 22 per cent interest for a hefty profit.

Brown Stockholders were later apprised of the unprofitability of many of the companies purchased under Sindona's management.

Brown's 1968 annual report informed shareholders of a \$4.3 million charge against income due to the borrowings of a European subsidiary (apparently Saifecs) guaranteed by Brown. Saifecs was reportedly sold back to Sindona but only after Brown had assumed responsibility for the company's liabilities.

In a later deal in which the Amincor Bank participated, Sindona used his interest in Seaport Corp. (formerly Oxford Electric), to buy and sell Uranya S.p.A an Italian color television manufacturer, in a complicated series of transactions.

Seaport's assets were drained to pay off loans that Uranya incurred to the Amincor and another of Sindona's banks.

"So much of the money paid to Seaport went from Sindona's left hand to his right hand, which may or not have had any knowledge of what the left hand was doing," said Phillip Mathias of the Financial Post concerning the transactions.

By 1972 Sindona's empire had grown by leaps and bounds. Banca Privata Finanziaria held assets of more than \$1 billion. SGI had accumulated holdings worth over \$300 million. Sindona also controlled Edilcentro-Sviluppo, the fourth largest financial company in Europe, one of the largest currency brokers on the continent and the Daily American, Rome's English language newspaper.

But in 1971, Sindona blundered. In an attempt to take over Bastogi, Italy's largest holding company with assets of more than \$200 million, Sindona incurred the antagonism of some of Italy's financial elite. Sindona acting in consort with the Hambros Bank, Continental Illinois Bank, and Westdeutsche Landsbank in the takeover bid was denounced as a foil for foreign interests in the expropriation of Italian industry. It was an incident that would have serious repercussion in efforts to salvage his troubled holdings later.

### Italian enemies

Sindona said of the incident... "the Bastogi takeover effort was my first face to face confrontation in Italy with people who have turned out to be my enemies. After the Franklin National got into trouble, they took advantage of it to retaliate for my efforts at Bastogi."

Hambros was shaken up and its links to Sindona severed. Rebuffed at home, Sindona left in search of new deals elsewhere. In July 1972, he purchased controlling interest in the Franklin New York Corporation, parent company of the ailing Franklin National Bank, twentieth largest bank in the U.S.

The previous November the Franklin National had reported a loss of some \$7.2 million. Unde-

tered by criticism of his investment, Sindona is reported to have told associates, "Don't worry. I'm going to make most of my money in foreign exchange. That's the way I do it in my Italian banks."

### New management

At the Franklin Sindona moved quickly to consolidate his control. He appointed David Kennedy, former chairman of the Continental Illinois, Nixon's first Secretary of the Treasury, and a longtime Sindona associate, as chairman of the board. Peter Shaddick, formerly of the Bank of Montreal, was installed as head of the International Department and Donald Emerich was hired as the bank's foreign exchange specialist. Emerich previously worked at the Continental Illinois and had apparently been fired for unauthorized foreign exchange dealing.

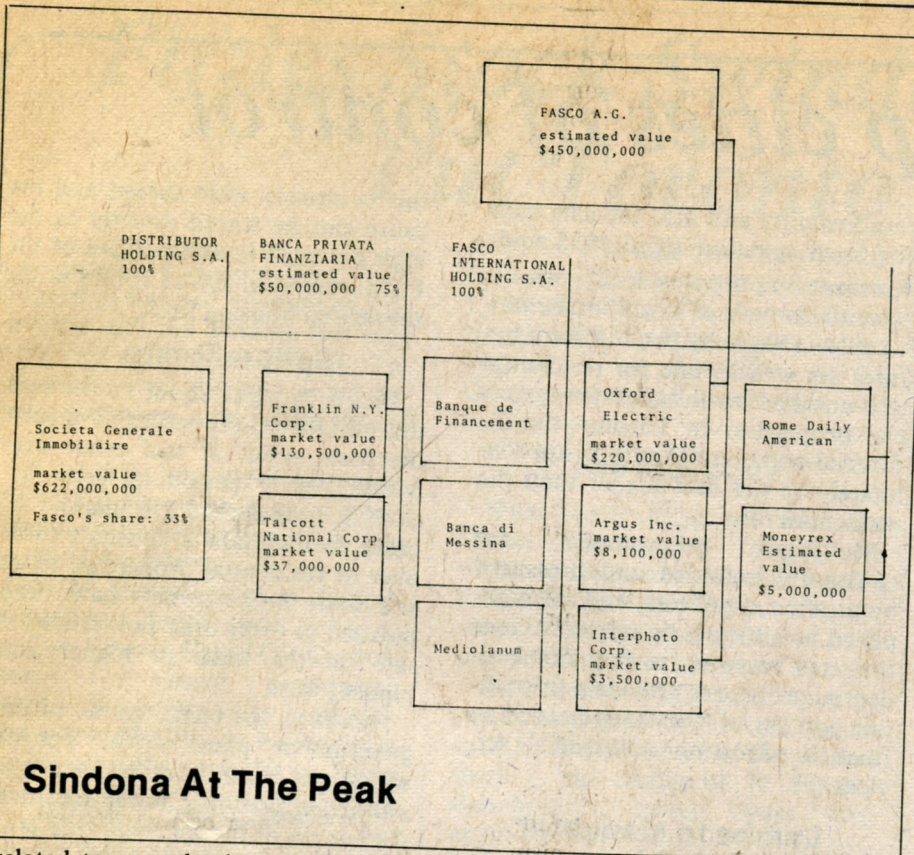
Despite Sindona's boasts that the Franklin would be as respected internationally as the Chase Manhattan and the First National City Bank, it continued to operate at a deficit. The bank might have closed by the third quarter of 1973 had it not been able to show a \$2 million profit resulting from foreign exchange trading.

In reality the Franklin had undertaken fixed trading with the Sindona controlled Amincor Bank. The Franklin bought currency from the Amincor and then sold it back at a profit with the rates fixed in both directions. Such trading was repeated in March 1974, but by then efforts to prolong the bank's solvency were of little avail. By April the operating deficit was running at a whopping \$3 million per month. All told Emerich had lost approximately \$40 million in foreign exchange trading.

Speculation persists that Sindona prolonged the Franklin National to give himself enough time to recoup as much of his investment as possible. Sindona labels this view as "outrageous and contradicted by the facts".

In the aftermath of the Franklin National collapse, Shaddick and Emerich pleaded guilty to charges





### Sindona At The Peak

related to unauthorized foreign exchange dealing, avoiding a detailed trial. Sindona went free, but as of 1975 is being sued by the SEC to recover \$15 million it contends were funneled from the Franklin National to other of his banks.

#### Corporate collapse

For Sindona, the collapse of the Franklin was a shot heard around the world. It came at a time of delicate negotiations with Italian authorities over expansion of the equity of his Italian holding company Finambro from \$75,000 to \$240 million. A capital rich Finambro would have been invaluable in helping Sindona consolidate his rapidly deteriorating financial position. But Italian authorities, reportedly led by Guido Carli of the Bank of Italy, a longtime Sindona foe blocked the deal fearing that Sindona planned to use Finambro to channel money out of Italy.

A run began on Sindona's Italian banks. Between June and August 1974 deposits at Banca Privata alone shrank from \$1,300 million to \$570 million. Large Swiss and French banks refused to renew their term deposits. Sindona turned to the

state controlled Banco di Roma for help in maintaining the bank's liquidity.

Help did not come cheaply. In exchange for \$200 million in credit and capital advances to his failing financial holdings, Sindona was forced to put up 51 per cent of Banca Privata Italiana (formed by the merger Banca Privata Finanziaria with Banco Unione) and 40 per cent of SGI whose assets had grown by this time to more than \$1 billion. Banco di Roma installed its own management. It was the beginning of the end.

Scrutiny of the banks revealed monumental losses from foreign exchange deals and from bad loans that had been granted Sindona controlled companies in Switzerland and Luxembourg. One government official placed the losses by Banca Privata and a financial subsidiary of SGI at \$300 million. Other reports estimated the losses to be as high as \$500 million.

#### Billion in foreign exchange

At SGI foreign currency contracts worth as much as \$1 billion were held at one point. Most currency speculation occurred in 1974 and

many contracts were based on the hope that the U.S. dollar would rise sharply against major European currencies. So heavy was this dollar speculation that in January 1975 William Simon, then U.S. Secretary of the Treasury, attributed the current weakness of the dollar, in part, to the collapse of Sindona banking interests.

The Wall Street Journal in October, 1975 reports that some officials suspect that the foreign exchange losses were only a disguise to cover the siphoning of funds to other interests. "These deals seem to have gone through a series of Chinese boxes, a box within a box, within a box, and we may never be able to penetrate the innermost box to see who's been in there," said one investigator.

Major losers in the collapse of Sindona's European banks include: ---the Vatican which is reported to have lost between \$40-50 million as a result of holdings in the Banca Privata and the Geneva based Finabank, closed by Swiss authorities.

---and the Italian government whose consortium of state owned banks assumed the liabilities to the tune of \$100 million.

#### "No wrongdoing"

Sindona denies wrongdoing in the management of his banks. In a rare interview since the collapse, Sindona blames his enemies in Italy, particularly Guido Carli, for his present troubles. "He has done everything in his power to injure me and the institutions associated with me," said Sindona in reference to Carli.

Sindona labelled allegations that Banca Privata loaned \$209 million to other companies in which he held an interest a total fantasy. "I acted morally, ethically and in a correct way," said Sindona of his business behavior.

Now Sindona's name has cropped up in connection with the \$400 million loss by the Swiss Credit Bank in 1977. In that case the Swiss Credit Bank's Chiasso branch made loans of more than \$1,000 million to a Lichtenstein Trust of unknown ownership, Texon Finaz Anstalt.



# Will strip cities of control

continued from page 2

water and sewers, streets and roads, transportation, schools, public libraries, parks, recreation facilities and public protection, are financed in large measure from local property taxation. This massive investment in local community development has become an instrument in the hands of real estate forces, not only for manipulating market values, but when applied to housing and housing resales adds a substantial cost factor to housing prices generally.

## Unfair situation

The Ontario government has long been aware of this unfair situation since another branch of real estate, Professional Appraisers, function actively in the Assessment Branch of the government. To become a member of this elite group one must hold a Real Estate Brokers Licence and pass an examination course which is prepared and directed through the Educational Committee of the Real Estate Association. The new assessments incorporated in the White Paper released by the Ontario Treasurer recently have been developed through the work of these Professional Appraisers. This kind of factual information indicates the degree to which the Corporate structure of Realtors is integrated into almost every facet of our economic life.

Property assessment in Ontario has been traditionally a municipal

responsibility and also the sole base for local taxation since 1935 and, for taxation purposes, local councils have the benefit of a *split-mill-rate* - a system whereby two different tax rates are struck, one for residential and another for industrial-commercial properties. In Toronto the industrial-commercial rate is approximately 15 per cent higher than the residential rate.

Municipal governments are constantly hounded and pressured by provincial policies, and are compelled at all times to try to balance their tax revenues so that non-residential properties provide a substantial portion of the taxes needed to finance education and social services.

## Lambs to slaughter

In order to achieve an assessment ratio which would not bear too heavily on residential taxpayers, municipal governments have offered all kinds of inducements to encourage industrial and commercial development. With the introduction of Regional Government and the provincial re-assessment programme, municipal governments and their residential taxpayers will be led like lambs to the slaughter house -- for the thrust of the new provincial policy will actually serve to shift a substantial portion of the tax from industrial-commercial to residential properties. Evidence of

this is already wide spread and the cause can be traced directly to the high powered re-sale policies of the Corporate Real Estate forces in the residential housing field.

## Split-mill-rate

This is brought about by the fact that residential properties have been the focal point of real estate activities over a period of year, including wide spread speculation. In order to maintain a constant turnover of residential properties, more and more home owners have been induced to offer their properties for sale on the basis of higher and higher prices.

However, the basic feature of the government plan -- the feature which will cause *the most damage to municipal taxation*, is the fact that the benefit of the *split-mill-rate* is to be eliminated....removed from municipal jurisdiction to be replaced with a *single-mill-rate*....a change which will take away from local councils the right to adjust the tax shift by applying a higher mill-rate to industrial-commercial properties.

Implementation of this measure, as part of the overall plan, will strip municipalities of the last vestige of control over their own finances, and local taxpayers across the province will be further frustrated in their desire to arrest the spiralling property tax burden that has become so onerous. □

The money came from the accounts of wealthy Italian depositors who thought it would be invested in the Eurocurrency market.

Texon channelled the money into what one banker called "silly Italian companies" which chalked up large losses. The loan had been guaranteed by the Chiasso branch for up to \$400 million.

Texon's assets included a Swiss corporation, Helfin holdings S.A. which was once part of the Sindona

empire. Helfin controlled the Amincor Bank, prominent in the fall of the Franklin National, as well as an interest in a financially troubled luxury resort on Albarella Island near Venice. The company, whose President Armando Pedrazzini was Sindona's lawyer in Switzerland, is suspected of having received long term loans through Texon.

Texon is reported to have also loaned money to International

Winefoods S.p.A., a food and wine distributor with operations in Europe and Canada, raising suspicions that some of the Swiss Credit money may have been routed through Canada.

The complete details of Sindona's dealings may never be known. But now with his extradition to Italy pending, anxious Italian prosecutors will at last be able to put the question directly to the secretive financier. □



# Fifties Stock Swindle Put Toronto on Map

To people who have been conditioned to think of Toronto as conservative and law abiding this may come as somewhat of a shock. Torontonians have become noted for their excursions into international fraud.

Recent cases have involved real estate fraud. However, a good many individuals started out as stock promoters in the fifties.

One of Toronto's most famous international fraud cases involved the Great Sweet Grass Oil Corporation. The fraud perpetrated through this corporation is considered one of the classic *boiler room* operations of the securities business.

## Boiler room classic

*Boiler room* operations are a revival of the old time *bucket shops* where a broker took the customer's money and used it himself instead of buying stock for the customer. This was known as *bucketing* the order. The *bucket shop* gambled on the market going against the customer. If it didn't the broker just moved in.

A new version of the *boiler room* has a safer method. Instead of just pocketing the money the customer is sold worthless paper. The tools of the trade are simple -- a sucker list, some telephones and a few thousand to rent an office.

That is all Sam Ciglen, a Toronto lawyer, needed to take over control of the Canadian Great Sweet Grass Oil Corporation in 1951. At that time the company had an unbroken record of deficits dating back to 1943. When listing on the American exchange was obtained in 1955, the loss for that year was over \$340,000. The loss should have disqualified the company for listing on the exchange but somehow it got listed anyway.

After gaining access to the nationwide ticker service, Ciglen proceeded to advertise the company's stock. Sweet Grass Oil stock was taken out of the penny class. The directors voted a reverse split, giving one new

share for five old. They then manufactured a further 2,895,000 shares. 1,750,000 of these shares were then issued to a shell company called Depositors Mutual Oil Development. The swindle was well under way.

## The real story

What really happened was that Ciglen had Richard Jordan, the owner of Depositors Mutual, put his property into Sweet Grass with payment to Jordan of \$1,930,000 cash plus 60,000 shares of Sweet Grass.

Jordan then transferred the properties to Depositors Mutual and issued 1,750,000 shares of Depositors stock in the names of 32 dummy shareholders. Sweet Grass then acquired the properties from Depositors Mutual for 1,750,000 newly issued Sweet Grass shares then currently selling at \$4.00.

Actually, only 60,000 Sweet Grass shares changed hands while the balance of 1,690,000 shares went into a trust account in Ciglen's name in a Toronto brokerage house, J.P. Cannon and Co. At a cost of \$1,930,000 in cash plus \$240,000 in stock Ciglen had manufactured \$6,760,000 in Sweet Grass stock.

The 1,690,000 Sweet Grass shares in his own trust account were funnelled into New York *boiler shops* where they were sold for more than \$8,000,000.

At the same time, Pitt Petroleum Ltd., an Alberta corporation, issued 500,000 shares for oil and gas properties worth less than \$1 million which were peddled to the public for \$2,440,000. Another 645,050 shares went to Torny Financial Corporation, a Toronto underwriting firm, controlled by Ciglen.

When the underwriters ran into problems having to do with the financing of a Las Vegas hotel it became necessary for Sweet Grass to obtain a new broker.

Ciglen used Sweet Grass' counsel Morris Mac Schwebel to find one. Schwebel was an associate of Lou Chesler, another internationally

famous Canadian promoter, who by this time had made \$70,000,000 on General Development, a Florida land company, and Universal Controls, products of which included pari-mutual equipment for race tracks.

The new *boiler room* operation included Charles M. Berman, whose background was in pin ball machines, jukeboxes and bookmaking. Berman and George F. Rothschild operated under the name of G.F. Rothschild and Co. with a capital value of \$4071.74 and a bank balance of \$2,203.78.

The Rothschild *boiler room* unloaded 1,569,000 Great Sweet Grass shares at \$3.65 to \$5.65 a share for a total of \$7,750,000, while another firm, Murray Securities, sold 121,695 shares from a Liechtenstein trust for \$390,000. The unsuspecting public paid more than \$8,000,000 for stock that later dropped to a value of \$84,543.

## Bubble bursts

The bubble actually burst in October 1956. The American SEC charged the company with filing false returns and misleading information. By October 24, Ciglen resigned and trading was temporarily suspended. The firm was also charged with illegally distributing stocks in the United States.

Ciglen refused to go to Washington. Despite the difficulties in obtaining documentation from Canada, the SEC was able to conclude its case. On October 8, 1957, Great Sweet Grass was permanently barred from listing on the American Exchange.

In the late 1960's, Ciglen was finally disbarred in Toronto. In 1970 he served a short time in prison.

Recently, Ciglen was turned down for legal aid in Ontario. His lawyer informed the Legal Aid Committee that Ciglen now owes income tax authorities approximately \$10 million arising out of the Great Sweet Grass Oil Caper.



# Miniskools continued



*continued from page 6*

Policy or Policies by the Tenant, the Tenant shall not be liable for any loss or damage to the Demised Premises or to the Property of which the Demised Premises forms a part, or any part thereof, resulting from fire, explosion, or any other casualty;

(e) the Landlord shall place and pay for general public liability insurance against claims for bodily injury or death and property damage occurring upon, in or about the common areas of the property of which the Demised Premises forms a part;"

The insurance referred to could therefore only apply to coverage of equipment and fixtures but an expert opinion solicited on this matter ventured that this kind of insurance wouldn't have premiums as high as they appear to be.

At Tuxedo Court, as at all the centres under discussion, Miniskools claims expenses for utilities. The Willowdale Skools's utility charges are clearly the responsibility of Miniskools. For those centres that are rental properties, it is a different story:

"5.00 (b) the Landlord shall promptly pay for all public utilities rendered or furnished to the Demised Premises during the term of this lease or any extension thereof, including water, gas and electricity. The Landlord covenants, represents and warrants that

throughout the term of this lease, the Demised Premises shall, at all times, be connected to electricity, water and gas lines of adequate capacity, subject to any temporary disruption of said utilities or services due to causes beyond the reasonable control of the Landlord. Sewer taxes, regardless of the manner billed or assessed, shall be paid by the Landlord."

Building repairs is an item claimed as a separate expense from other similar costs, ie, maintenance and labour expended in maintenance. For Tuxedo Court, \$3,393 is set aside for labour and materials in maintenance. Since the type of building repairs is not made clear, it is difficult to determine whether the expense is justified. In this regard, the lease states clearly what responsibilities devolve to the Tenant and to the Landlord:

"4.00 (b) subject to the exceptions and qualifications hereinafter stipulated, the Tenant shall make and pay for all replacement of plate glass and non-structural repairs and replacements to the interior of the Demised Premises and including exterior doors leading to the Demised Premises, which are necessary to keep the same in a good state of repair, subject to reasonable wear and tear, but in no event shall the Tenant be obliged to make repairs and replacements which the Landlord shall be required to make under this or any other provisions of

this lease or which shall be necessitated by the Landlord's negligence, default or failure to repair, as herein required. The Landlord shall make and pay for all structural repairs and replacements to the roof, exterior walls, floors arising from the weakening or collapse thereof, foundations or bearing structure of the building, of which the Demised Premises form a part, which shall be necessary in order to maintain the Demised Premises in a good state of repair."

It may be that "Building Repairs" are major internal alterations to the premises.

In general reference to the many other provisions of the lease, there has to be some clarification. How, for example, does Metro verify the cost claims? For those private, profit oriented businesses that are given public funds, there should be every opportunity to establish the truth of those claims.

Given the issues raised in this article, one must necessarily think about the time and money expended by government and community groups to ensure that subsidized private business don't take us to the cleaners on a regular basis.

The problem is made more intractable by the provincial government's policy of privatization of social services. The more the government demonstrates a desire to have less responsibility for a given service, the more diligence is required in establishing truth in claims for subsidies.

There is growing public demand, as acknowledged in a Canadian Institute of Chartered Accountants report, for public access to financial records of organizations with "public accountability", "organizations with significant social or economic impact", and organizations which use "significant amounts of government funds".

Miniskools is no exception: it fits the last two criteria.

Public funds should be directed toward socially justifiable services, and any company using those funds should make available, on demand, a true reporting of costs and income and should not lash out at close scrutiny with injunctions and the threat of fines and jail sentences.





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