

# **Underground Video Gambling Industry Costing Maryland More Than \$15 million Annually In Uncollected Taxes**

*Research also shows that in Baltimore City and Baltimore County  
machine operators are underreporting their income by  
more than \$63,000,000 a year*

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PUBLISHED BY  
**The Abell Foundation**  
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JANUARY 2006

Joan Jacobson was a reporter for *The Sun* and *The Evening Sun* for 28 years, covering many of the government bureaucracies and court systems reviewed in this study. She is also the co-author of *Wised Up*, the 2004 memoir of an FBI informant and the first book about organized crime in Baltimore.

## **EXECUTIVE SUMMARY**

Millions of tax dollars are lost annually from an underground slot machine industry in Baltimore City and County, with nearly 3,500 video gambling devices scattered in hundreds of bars, convenience shops, gas stations and liquor stores where gamblers are awarded winnings from bartenders and clerks, instead of slots in the machines. From Dundalk to Towson, from Hampden to Belair Edison, this unregulated industry has more video gambling machines operating illegally than all of Delaware's Dover Downs has operating legally. Though slot machine gambling is illegal in Maryland, Baltimore's slots industry operates with the sanction of local government – under the guise that the machines are for “amusement only.”

This study presents an accounting of the number of the machines and evidence that the devices bring an estimated gross annual income ranging between \$91 million and \$181 million,<sup>1</sup> most of which goes unreported to tax collectors. Further, the study documents that the industry has flourished virtually unchecked, despite a criminal investigation in 1984 (“Operation Quartermatch”), which concluded that video gaming machine owners were cheating on their taxes by underreporting millions of dollars in income. Since then, no government agency or political body has stepped forward to fix the system.

The Maryland Comptroller's office, for example, has known for 20 years that the industry's income is underreported.<sup>2</sup> State tax collectors say they lack the manpower to rein in the vending operators, though it is unlikely an army of auditors could effectively

investigate a business that functions on an “honor system.” Without a government-controlled tracking system inside each machine, there is no way to count the revenue. Maryland’s Comptroller also said that while the industry’s revenues “can quite easily be obscured from audit scrutiny,” the State places a “higher priority” on policing other tax laws “where the return to the State treasury is greater.”<sup>3</sup>

Court rulings and law enforcement experts have long determined that video gambling machines are designed and used for illegal gambling. For decades, undercover police officers have been paid winnings by bartenders or store clerks, rather than from a slot in each machine. Even without evidence of payoffs, the Maryland Court of Appeals ruled in 1985 that the machines are “contraband,” illegal by their design as slot machines without slots.<sup>4</sup> Based on this court ruling, prosecutors in Harford, Carroll, and Anne Arundel counties prohibit the use of these machines. (The State’s Attorneys for Baltimore City and County did not respond to a request for an interview for this study.)

To demonstrate the loss of tax revenue, the study focuses on one tax, the Admissions and Amusement Tax, a 10 percent levy on gross receipts reported by operators of coin-operated amusement devices in the city and county. The state collects this tax and turns the money over to local jurisdictions. In Fiscal Year 2005, the state collected \$1.3 million for Baltimore City and \$1.5 million for Baltimore County.<sup>5</sup> This corresponds to \$13 million reported revenue from city amusement devices and \$15 million from the county. The reported revenue from gambling devices is lower because these totals include income from other coin-operated machines.

This study reveals a much different picture. Based on interviews with law enforcement representatives and former bar owners, it estimates that each machine in these jurisdictions brings in between \$500 to \$1,000 a week, or \$26,000 to \$52,000 a year.<sup>6</sup> Multiplying that estimated annual income by the 2,106 licensed video gambling machines in the city, the study further concludes that operators of Baltimore City's video gambling machines have a gross annual income of \$55 million to \$110 million. Thus, the city should be getting \$5.5 million to \$11 million, not \$1.3 million. For Baltimore County, the study estimates the annual gross income for the county's 1,371 machines to be \$36 million to \$71 million, which would bring in a tax of \$3.6 million to \$7 million, not \$1.5 million. The slots industry of Baltimore City and County is underreporting its income by \$63 million to \$153 million each year.<sup>7</sup>

In addition to the Admissions and Amusement tax, the state and federal governments are undoubtedly losing millions more in income taxes due to underreporting of the business income accrued through this illegal activity, though calculating the loss of income tax is very difficult. Nor are taxes all Maryland is losing. Where slots are legal, states charge hefty fees to vendors who manufacture and operate slot machines and levy stiff taxes on the profits. In Pennsylvania, for example, the state requires a one-time \$50 million fee from each operator of a slots casino.<sup>8</sup> At Dover Downs, which has 2,500 slot machines (1,000 fewer than in the Baltimore area), Delaware collected \$69 million from the profits for its general fund in fiscal 2005.<sup>9</sup>

The study argues that Maryland's agencies which register the video gambling machines as "games," have either been unaware or unwilling to acknowledge that machine owners and operators may be violating city zoning laws, state smoking laws, liquor laws, state corporate registration laws, and tax and gambling laws. Because it does not acknowledge formally that it is in the gambling business, the state has created no legislation to prevent convicted felons, tax evaders or forfeited corporations from running the industry, which often goes hand in hand with bookmaking, sports betting, drug dealing and other illegal enterprises.<sup>10</sup>

For example, one long-time vending company owner, Joseph J. Stonik, operates 101 video gambling machines as of the writing of this study despite an unsettled \$1.1 million tax lien against one of his vending companies that grew out of the Quartermatch investigation.<sup>11</sup> Another vending owner, Gilbert Sapperstein, head of Star Coin Machine Company, with 144 registered video gambling machines, pled guilty in May 2005 to conspiracy, bribery, and theft of \$3.5 million from the city's school system and public works department through a boiler company he owned.<sup>12</sup>

Vending companies also operate a coercive "banking" system in which they hold bar owners hostage by providing loans -- with the stipulation that the bar owners agree to operate the illegal slots. If a bar owner misses payments and defaults, the vendor can take ownership of the bar and the valuable liquor license. The city's liquor board overlooks this practice by allowing the vendor to sell the license, even though he was never the

licensee of record and may not meet the liquor board requirements to obtain such a license.

In states where slots are legal, everyone working in the industry-- from machine repair workers to executives-- is subject to background checks in a good faith effort to exclude organized crime. The machines are inspected to assure they are tamper-proof and the state counts revenue by using computerized tracking systems embedded in the machines. In Maryland, however, the illegal slot business appears to be condoned by prosecutors, courts, and liquor boards. Their unresponsiveness keeps the industry humming; criminal charges are routinely dropped and fines are too small to act as a deterrent. The typical Baltimore City liquor board fine for illegal gambling is \$225, less than half the amount of money the average gambling machine earns in a week. The Baltimore County liquor board does not hear any gambling cases. Liquor boards are mandated to keep criminal activity out of businesses with liquor licenses.

Not surprisingly, liquor boards have cozy relationships with vending company owners. A 1999 corruption trial of the city's chief liquor inspector revealed that he and other liquor inspectors worked side jobs, emptying video gaming machines for a vending company.<sup>13</sup> In Baltimore County in the 1960s, an investigation by the *Baltimore Sun* revealed the chairman of the liquor board had a business interest in a vending company.<sup>14</sup>

From all appearances, Maryland's enforcement system is disjointed; government agencies find themselves working at odds, the right hand not knowing what the left is

doing. For example, in Baltimore City the finance department gave amusement device licenses to hundreds of businesses, unaware that these same businesses were violating the city's zoning code that restricts the number of machines in each location. There is also no coordinated effort between licensing offices and the local police departments that confiscate gambling devices during raids. The licensing offices speedily grant new licenses for machines to replace ones seized or dismantled by police, without waiting for the outcome of trials against vending companies or businesses.

For decades, rumors have spread that vending companies have special connections to Maryland's elected officials, which some say explains the ease with which these companies continue their illicit operations. Accordingly, this study examined campaign contributions made by vending companies to Maryland political candidates over the past six years, and found that \$45,598 in contributions were made by 54 vending companies and 61 individuals who operate them. No pattern emerged showing excessive contributions to any one candidate. Several vending company owners gave no contributions, including Baltimore's largest gaming machine operator, Carroll (Roy) Bond III, whose company, Carbond Inc. (also known as Bayside Vending) has 323 gambling machines.

More than half the contributions reviewed came from one owner, John Vontran, president of Amusement Vending Inc., which has 93 registered gambling devices. In an interview, Vontran said he is a bar owner and the outgoing president of the Baltimore City Licensed Beverage Association, a trade group. Vontran's contributions appear to

violate Maryland's campaign finance law, which prohibits contributing more than \$10,000 during a four-year campaign cycle.<sup>15</sup> Vontran gave \$14,300 in 2003 alone. Vontran, who acknowledged he is being investigated by the Maryland State Prosecutor, stated for this report that the contributions listed under his name by the Maryland Board of Elections are incorrect and should have been attributed to "business people and family members." (His assertions could not be confirmed for this report.)

History suggests that the video gambling machine "slot" industry will only grow stronger without government intervention. A current investigation by the United States Attorney's office in Baltimore is instructive: it reveals evidence of money laundering with the seizure of \$1.7 million and a private jet used to move boxes of cash from state to state. The Virginia company under investigation had 500 video gambling machines in 15 states, including Maryland.<sup>16</sup>

Two courses of action are offered in response to this illegal enterprise: 1) Ban the machines, by passing stronger anti-gambling laws or enforcing the laws already available to the police, courts, liquor and zoning boards and other licensing agencies; or 2) Legalize the machines with all the controls available from today's legal gambling industry that insures a corrupt-free business and an honest accounting of revenue with the state receiving its proper share.

## **OVERVIEW**

This study provides a comprehensive overview of the illegal video gambling industry active today throughout Baltimore City and Baltimore County focusing on the following ten key areas:

- I. A HISTORY OF GAMBLING DEVICES DISGUISED AS GAMES**
- II. THE ILLEGAL VIDEO GAMBLING BUSINESS TODAY**
- III. A COUNT OF LICENSED VIDEO GAMBLING MACHINES**
- IV. LOSS OF REVENUE**
- V. STATEWIDE INVESTIGATION: “OPERATION QUARTERMATCH”**
- VI. COURT RULINGS**
- VII. GOVERNMENT RESPONSES**
- VIII. CAMPAIGN CONTRIBUTIONS**
- IX. LESSONS FROM OTHER JURISDICTIONS**
- X. RECOMMENDATIONS**

### **I. A HISTORY OF GAMBLING DEVICES DISGUISED AS GAMES.**

The invention of slot machines for gambling disguised as “games” dates back more than a century in the United States. The first mechanical device used as a slot machine was created in 1887 by Charles Fey and was placed in San Francisco saloons by 1895. His arrangement was similar to today’s relationship between vending company owners and bar owners, who split a machine’s profits after gambling payouts were made. Fey’s machine, the Liberty Bell, was the first automatic three-reel slot machine. In an attempt to circumvent gambling laws, the early machines took tokens called “trade checks” (instead of money) that were traded for merchandise and services.<sup>17</sup>

By 1902, machine makers found other ways to disguise them. One model had a music box, so a player could pretend he was listening to music, instead of gambling. Others had “fronts” of gum or candy dispensers. Some had phony “skill stop” buttons, making them appear a game of skill rather than chance.<sup>18</sup> By 1913, the courts had begun to catch on to the ruse. A court ruling that year in Missouri found: “In no field of reprehensible endeavor has the ingenuity of man been more exerted than in the invention of devices to comply with the letter, but to do violence to the spirit and thwart of beneficent objects and purposes of the laws designed to suppress the vice of gambling.”

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While law enforcement remained lax, the gambling machine industry flourished. Pinball machines, first marketed about 1930, were “refined versions of the bagatelle, a Victorian parlor game with steel balls propelled into numbered holes. Bright flashing lights came later with the “advent of electrification.”<sup>20</sup> The “bingo” gambling machine was introduced in the 1950s; like its predecessors it was designed as a game to throw off law enforcement. They were “innocent appearing devices, yet designed to relieve gamblers of their money.”<sup>21</sup>

Then as today, the machine must look like a good investment to the gambler. In the infancy of the industry most machines would pay off 70 to 80 percent of the money paid in to entice the gambler to keep playing. “A machine which never pays off or pays off only sparingly will quickly put itself out of business.”<sup>22</sup> The bingo gambling machines

included scores indicating the amount of payoff for the player. The size of the payoff was determined by multiplying the cost of a single “activation” (25 cents) by the number on the replay register when the game stops.

One article written by an FBI agent reported that the machines had a “governor” inside that adjusted the chances of getting high scores, depending on the machine’s history. Machine operators argued that the “governors” would “adjust to the difficulty of the machine to coincide with the ability of the player” but the FBI author claims that this is “Nonsense!” and that the “governor” controls only the profit level of the machine; if a player is winning, the “governor” will “tighten up” the machine so payoffs will be less likely. If the player is losing, the machine will “loosen up” to give the player a better possibility of winning – and keep him dropping coins into the machine.

The first minicomputer was introduced into an electronic slot machine in 1964, with images created on a screen, giving a player more ways to win for each coin inserted.<sup>23</sup> The judicial system has generally named three elements that need to be present to substantiate the claim that a “game” is really a gambling device: 1. a coin is needed to play; 2. the outcome must be determined by chance; and 3. the reward must be equal or greater than the initial amount of money used to play.

Illegal gambling devices were so popular more than 50 years ago that they had gross revenues nationwide of about \$2 billion in 1950. Since then revenues have declined, due to law enforcement and legislative efforts to outlaw them.<sup>24</sup> Today, there

are two types of video gambling devices. One is the casino-type device that dispenses coins to winners from a slot. The other machine registers credits from a meter displayed on the video screen. Winners get their payment from a bartender or store clerk. Except for the payoff method, these two devices function identically.<sup>25</sup>

Today's video gambling machines are not so cleverly disguised as games. Though generically called "poker" machines, many machines are more like slot machines with spinning lines of pictures of fruit, the number "7," or other symbols that align for winners. Most machines include a sign that says, "For Amusement Only." [Which the undercover police detectives who get paid for their gambling winnings during a sting operation find ironic]

The illegal gambling industry in the Baltimore metropolitan area is not new. In 1980, a series of *Baltimore Sun* articles, "Illicit Gambling Rife in Taverns in Baltimore County," reported extensively on the video gambling business in Baltimore County during four days of front page stories. Little has been done to remedy the situation in the past quarter century.<sup>26</sup> *The Sun* reporter observed gambling payouts at county bars and described a county liquor board that took no action when bar owners were charged with illegal gambling, even though the liquor laws allowed the board to suspend or revoke a liquor license for illegal gambling.

The series described vending company owners acting as "banks," lending money, as they do today, to bar owners who agreed in return to install the illegal gambling

devices and repay the loans with proceeds from the machines. The articles also described police action against bar owners, but not vending company owners. It was also reported that illegal gambling dated back at least to the 1960s when Baltimore County Executive Spiro T. Agnew unsuccessfully tried to ban pinball machines that were used for gambling. Defending the use of the machines at the time was Dale Anderson, then a County Councilman and later County Executive.

An earlier 1960s investigation by *The Sun* also found that the chairman of the county's liquor board had an interest in Rossville Vending Company, one of the county's largest vending companies.<sup>27</sup>

## **II. THE ILLEGAL VIDEO GAMBLING MACHINE BUSINESS TODAY**

### **Background**

Vending companies with large cash reserves shore up the tavern business with loans to bar owners.<sup>28</sup> This long-standing practice allows a bar owner short on credit to finance a business he would otherwise be unable to afford, but the loans come at a high price. In a typical case, a purchaser of a bar may find that he needs \$50,000 to buy a business which includes a half dozen video gambling devices and other games. The machines are owned by a vending company, whose president makes an offer the bar owner finds tempting. The vendor will loan the \$50,000 if the tavern owner agrees to

keep the video poker machines in his bar for a certain number of years, using the machines' profits to repay the loan.

In a typical agreement, the bar owner and vendor agree to split the proceeds of the machines (50-50 or 60-40), after payouts are made to gamblers. The tavern owner understands that he will repay his loan from his share of the gambling profits. If he or his employees are charged by police with illegal gambling, the vending company will provide a lawyer to the bar owner to handle the case.

The tavern owner knows he is trapped in this business relationship with the vending company owner for two reasons: First, his income from the gambling profits – even after he pays his loan – is too profitable to give up. In fact, some bars don't sell enough beer to pay the bills; the lucrative video gambling trade is what really keeps them in the black.<sup>29</sup> Second, if the tavern owner defaults on his loan, the vending company is entitled to take over the bar and its valuable liquor license. Thus, the vendor becomes a "secured creditor" or "contract purchaser." Finally, any criminal gambling charges will most likely be filed against a bar owner and staff caught in the act of paying gamblers, rather than against the vending company behind the scheme.

The non-casino machines found in Baltimore City and Baltimore County for decades also have "knock-off switches" to eliminate the points on a machine, so a new player cannot piggyback on a previous player's points and winnings. This is done by holding a metal object, such as a quarter, to two rivets on the side of the machine; the

connection between the object and the rivets sends an electrical current to a computer circuit board inside the machine.<sup>30</sup> Each earned point is worth 5 cents, so a score of 800 will win a \$40 payout from a bartender or store clerk, who then flips the knock-off switch back to zero.

### **Location of Video Gambling Machines**

Evidence today, from interviews with former bar owners, city and county vice detectives, and the FBI reveals a business that has prospered in taverns and Elks Clubs, Moose Lodges, VFW, and American Legion Posts throughout the 1980s and 1990s.<sup>31</sup> In recent years the video gambling business has spread into suburban shopping centers and urban residential neighborhoods; in gas stations, convenience, grocery, and liquor stores, restaurants, billiard halls, check cashing businesses, political clubs, cigarette stores, pawn shops, bowling alleys and even an occasional laundry, car wash and video store.<sup>32</sup> Several examples of actual locations follow.

One location is a modest convenience store and a popular Indian food carry-out called Mt. Everest at 4907 Frankford Avenue. Inside are 10 wall-mounted gambling devices, streamlined to fit neatly into this little building. City records reflect that only 7 of the machines are licensed with the city by Columbia Amusements, one of the area's largest vending companies. On the walls alongside some of the machines were paper signs that read, "For amusement only." City police raided this business twice for gambling in the past year. In one raid, on February 4, 2005, they seized \$10,375 from the

ten machines.<sup>33</sup> In addition to violating gambling laws and city licensing laws, the large number of machines also violates city zoning law, which allows no more than two coin-operated amusement devices in such a business.<sup>34</sup>

Another location, the tiny Hillen Grocery, is squeezed in a corner of row houses at 1900 E. 31<sup>st</sup> Street in Coldstream-Homestead- Montebello, one of Baltimore's poorest neighborhoods. In the narrow aisles are four bulky gambling devices, none of which are registered with the city. They also violate city zoning laws, which allows one machine in such a tiny store.<sup>35</sup>

In Hampden's popular commercial area of 36<sup>th</sup> Street, a gentrifying community, there is a virtual mini-slots palace inside a grocery store at 1017 -1019 36<sup>th</sup> Street. The Hampden Food Market has 17 machines (only 13 of them are licensed), lined up on aisles where groceries would normally be displayed. On a visit in summer 2005, women smoked cigarettes while playing the machines (in violation of Maryland's anti-smoking laws). The number of machines also appears to violate city zoning laws, which allow only 2.<sup>36</sup>

The Garden Inn, at 5511 Belair Road, is a location where one can cash payroll, Social Security and SSI checks, purchase Maryland lottery tickets, play video gambling machines, and consume alcohol. The four video gambling machines opposite the bar are all properly licensed with the city.

The county's Merritt Point Billiards, at 1605 Merritt Boulevard in Dundalk has a sign outside that says, "BYOB," but no mention of video poker machines. On an early Friday evening in November 2005, the large room, full of pool tables, ping pong tables, and hockey games was empty. But a smaller adjacent room was busy. Inside, seven people played some of the 16 video gambling machines licensed as "games" by Baltimore County.

## **Vendors**

More than 50 vending companies had licensed video gambling machines in Baltimore City and County in 2005. Each had from a half dozen to more than 300 machines.<sup>37</sup> In addition to a list of about 50 vending companies compiled for this report, several smaller companies each own a handful of machines. The city and county also have hundreds of these video gambling machines registered by bars and other businesses that operate or own their own machines, without going through a vending company. In addition to operating gambling businesses, these vendors lease thousands of legitimate coin operated devices (such as pool tables, music boxes and real games). It follows that the industry's total gross income is far greater than estimated in this report.

It is impossible to determine all the names of people with a stake in the video gambling businesses because many business records are not publicly available. The names in available corporate documents and amusement device registration records are those with addresses in the Baltimore metropolitan area. Some names are familiar,

publicized in the media for their arrests in unrelated activities or because they are relatives of owners of vending companies that operated decades ago.

It is also difficult to determine who owns some of the vending businesses, because the businesses are not registered as corporate entities (whose officers' names must be filed), or because their corporations were forfeited due to their failure to file annual reports, leaving no paper trail of ownership. It is also possible, in such an underground business where taxes go unpaid, that owners might hide their interest by refusing to list their names in any public document.

Additionally, some companies do not license their machines and therefore operate under the radar of the city and county licensing agencies, making it difficult to identify them. For example, according to newspaper reports, the owner of Statewide Amusements Inc., an Anne Arundel County business, was caught with 12 unlicensed amusement devices during a November 2005 raid on a poker game in South Baltimore. The company has not registered any amusement devices with Baltimore City or County. The 12 machines were only discovered after a raid on the club, the Owl's Nest.<sup>38</sup>

Local organized crime has been linked by some to vending company businesses owners, as well as to the bar owners who keep the machines. Video gambling machines have gone hand in hand with bookmaking, loan sharking, drug dealing, and bribes to liquor inspectors, and many illegal enterprises run out of Baltimore bars, which are also handy places for laundering money.<sup>39</sup>

One example is Joe's Tavern, a busy Dundalk bar just inside the city line on Dundalk Avenue, which was recently shut down by the Baltimore City liquor board.<sup>40</sup> Joe's Tavern, with five licensed video gambling machines, is featured in the 2004 book *Wised Up*, the memoir of an FBI informant who operated the bar in the 1990s while its owner was in federal prison for loan sharking and witness tampering.<sup>41</sup> In *Wised Up*, Charlie Wilhelm recounts how bar owners connected to his crime syndicate dodged police raids by getting advance warning from liquor inspectors. Once tipped off, Wilhelm would empty the gambling machines, which he called "pokers," and hide the money (plus papers listing payouts to gamblers) in the trunk of his car. Wilhelm estimated his popular bar took in as much as \$6,000 from the five gambling machines in a busy eight-hour shift and paid gamblers \$1,000 in winnings.<sup>42</sup> Joe's employees also sold drugs, made illegal loans, ran a bookmaking operation – while also selling legal tickets through the Maryland Lottery – and occasionally supported prostitution out of the bar.

Another popular bar with video gambling machines was Letts Tavern on 5441 Belair Road which recently went out of business.<sup>43</sup> Owned by convicted bookmaker Vernon Letts, the bar contained several video gambling machines licensed by a corporation headed by Letts. He ran a sophisticated bookmaking operation out of the bar. His 1999 arrest – along with five others from his gambling ring - was entangled in a federal investigation of an unnamed Baltimore police official being investigated by the FBI (but never caught) for giving bookmakers advance warnings of city police raids.

Letts was sentenced to 15 months in prison and fined \$30,000, despite a leniency plea from then State Senator Thomas Bromwell, who called Letts a “gentle and compassionate man” in a letter to the judge. The federal government kept \$198,000 in cash that the FBI confiscated from the inconspicuous little tavern. <sup>44</sup>

More than 50 vending companies register video gambling machines in Baltimore City and County. The following seven companies own the highest number of licensed machines. <sup>45</sup>

- Carbond Inc.** has 323 video gambling machines (192 registered in the city and 131 in the county). Carbond, also known as Bayside Vending, is owned by Carroll Bond III and is located at 5501 Pulaski Highway.

- Columbia Amusements Inc.** has 254 video gambling machines (122 registered in the city and 132 in the county). It is owned by Joyce Willig and Tony Paskiewicz and is located at 6424 Frankford Ave.

- Nick’s Amusement Inc.** has 193 video gambling machines (103 in the city and 90 in the county). It is owned by John Zorzit and is located at 2700 Annapolis Road.

- **Venture Amusement Co. and a related corporation, Bunny’s Vending Company,** have 147 video gambling machines (95 in the city and 52 in the county). Cecil A. Levinson is president of both corporations. Venture Amusement’s vice president is Kenny Gensler, its secretary is Barbara Skarzynski and its treasurer is David Gensler. Venture Amusement is located at 1418 Belvedere St. and Bunny’s Vending is at 301 E. 29<sup>th</sup> St.

- **Star Coin Machine Corp.** has 144 video gambling machines (121 in the city and 23 in the county.) It is owned by Gilbert Sapperstein, who gives 8508 Arborwood Road and 113 West Hamburg Street as the company's addresses.

- **8912 Investments LLC, RVMC, and C&J Amusements LLC** are all owned by Joseph J. Stonik, formerly president of Rossville Vending Company. The three companies, located at 8912 Yellow Brick Road, have 101 video gambling machines (29 in the city and 72 in the county).

- **Amusement Vending Inc.** has 93 video gambling machines (69 in the city and 24 in the county.) It is owned by John Vontran and is located at 6806-08 Eastern Avenue.<sup>46</sup> John Vontran, when told of this report's conclusion that the machines are illegal gambling devices, said, "I have no comment on that. I'm saying they're amusement devices. I have no way of knowing they're used for gambling." He then said he believed that if the machines were outlawed many "bars would be out of business." When told of the unpaid taxes estimated in this report, Vontran said, "I wouldn't argue with that." But he said he pays full taxes on income from his machines and that the amount "would choke you."

### **Interviews with Former Bar Owners**

In many Baltimore City and County bars, video slot machines are as much a staple as beer. In fact, some bar owners can't sell enough beer to keep their doors open. If it wasn't for the symbiotic relationship between gambling machines and alcohol, they might be out of business.

Three former bar owners (two of whom asked to remain anonymous) revealed how they operated the gambling machines, paid off winners, avoided police, colluded with vending companies to underreport revenue to tax collectors, and laundered gambling profits through the bar. Also interviewed were two current bar owners (who also asked to remain anonymous), who told of their struggle to buy a bar *without* slot machines.

The three former owners operated their businesses in the 1990s and had similar stories: All said their gambling machine income was never audited or questioned by the Maryland Comptroller's office or the IRS; they were never visited by city inspectors checking amusement device licenses, and they were never charged by police or the liquor board for illegal gambling. And no one, other than vending company employees, checked the meters inside the machines that showed the true amount of money received.

One former bar owner said he felt safe from enforcement efforts when, on several occasions, off-duty police officers visited his bar to play the gambling machines and received their winnings from bartenders. The owner said he started his career as a bartender in the 1990s and learned how to watch the machines when players racked up winning points. As long as there was no stranger in the bar who might be an undercover vice detective, he routinely paid off winners from money he kept in an envelope in a drawer behind the bar, usually stocked with \$200. He paid off gamblers who accumulated at least \$20 in winnings.

After a few years, the bartender purchased the bar for \$60,000 without any cash up front. Two of the city's largest vending companies each loaned him \$30,000 at 12 percent interest. His payments totaled \$2,500 a month, which he said he made easily from the gambling proceeds. Like the other bar owners interviewed, his machines easily brought in between \$500 to \$1,000 a week per machine.

His bar had four to six machines at any time, and the vending company owner reimbursed him for the gambling payouts. After the payouts were deducted from the gross receipts, the vending company split the remaining cash 50-50 with the bar owner. The bar owner stated that the vending company used a "ten percent rule" when providing him with a receipt for his portion of the gambling profits. The receipt, which he used for tax purposes, showed he earned 10 percent of his true video gambling income. (Gambling payouts were not included in these calculations, so the reported income was below 10 percent.)

The bar owner said his biggest problem was figuring out what to do with all the extra cash he earned from the machines. He was careful not to put it in a bank because tax auditors might get suspicious of large deposits. He said he used the money to "eat, drink, and gamble lavishly." Sometimes, however, he laundered the cash through his bar and used it to buy beer because his tavern had so little return from alcohol sales that he had no legal income to buy supplies. It was not unusual to sell only \$30 in beer during an eight to ten hour shift and pay the bartender \$40. The gambling machines, however,

could bring in \$250 on the same shift. He eventually sold the bar and went to work in a more traditional job.

Charlie Wilhelm was a career criminal when he ran Joe's Tavern in the early 1990s. Wilhelm became an FBI informant in 1995 and helped the FBI and state prosecutors put more than 20 of his former associates in prison.<sup>47</sup> As stated above, his memoir, *Wised Up*, included descriptions of video gambling operations and other illegal activities at Joe's Tavern.<sup>48</sup>

Wilhelm said about one quarter of the gambling earnings was reported to tax collectors. He compared the video gambling business in Baltimore to a banking system with no controls: "It was like putting bank tellers on the honor system and never checking their accounts at the end of the week."<sup>49</sup>

A third former bar owner said she was also told by the owner of her bar's vending machines to underreport income for taxes. For every \$100 of income, \$40 was paid to gambling winners but never reported as income to tax collectors. The other \$60 was split equally between the bar owner and vending company owner. The bar owner said the vendor wanted her to report only half her share of the gambling profits. Under the vending company's plan, she said, only \$30 of every \$100 would have been reported for taxes. Instead, she said, she reported all of her receipts, except for the payouts.

Two business partners interviewed for this study said they bought a city bar and found it difficult to get rid of its three machines. They did not want the machines, they said, because the gambling business preys on poor people. “You’ve got people who don’t have a lot of money and you’re taking advantage of them. Ethically, it bothers me,” said one partner. The seller of the bar urged them to meet with the son of a vending company owner, who wanted to loan them money, in exchange for their agreement to keep the machines in the bar. They said they told him they were getting a bank loan to finance the bar and did not need his help. The seller, nevertheless, insisted on a sales contract that required the buyers to keep the vending company’s machines for seven years. After an unsuccessful attempt to get the seven year clause removed from the contract, they signed it, although they still planned to open a slots-free bar. They said it was the only way the seller would go to settlement with them. They also figured that since the vending company was not party to the contract, it could not enforce the clause and make them carry the machines.

When the new owners began renovations, they asked the vending company to remove the machines during construction. When the renovations were completed, the owners asked the vending company to deliver only one computerized dart board. When the delivery truck arrived, the owners said it contained the dart board, plus three video gambling machines. They told the delivery man to return the gambling machines. This prompted angry calls from the seller of the bar and the son of the vending company owner, who told them they would be hearing from his lawyer. They never did.

### **III. A COUNT OF THE ILLEGAL VENDING GAMBLING MACHINES**

The breadth of the video gambling machine industry is easy to overlook. To most people who notice only a half dozen video gambling machines at their local bar, the industry appears to be harmless. Scattering the machines in hundreds of locations is a good way to hide a slots industry that has nearly 1,000 more machines than Delaware's legal slots palace at Dover Downs which contains 2,500 slot machines.

Today, even the government agencies that register the gambling machines do not know how many they license because they co-mingle video gambling machines with real games. Auditors from the Maryland Comptroller's office were unaware of the numbers of licensed amusement devices in the city and county until this study made the numbers known.<sup>50</sup> Failing to count the machines makes it a problem that politicians, prosecutors and liquor boards can easily ignore. It also prevents state and federal tax collectors from gauging the extent of their tax loss.

For this study the video gambling machines were distinguished from the real games by matching names of known video gambling machines with the name of each "amusement device" registered in the city and county. A list of more than 30 names of popular video gambling machines was provided by the FBI forensic examiner and gambling expert James Douglas Dunlap. The list included names such as Cherry Master, Cadillac Jack, Fruit Paradise, 8-liner, Draw Poker, and Chicken Draw.

In addition, spot checks of several locations, as well as interviews with city police detectives, reveal numerous unlicensed gambling devices in Baltimore City.<sup>51</sup> Since the city's unregistered machines are impossible to count, figures are limited to licensed gambling devices. In 2005, Baltimore City approved licenses for 3,650 amusement devices of which 2,106 are actually gambling devices. Baltimore County has 1,371 gambling devices out of a total of at least 3,179 amusement devices.<sup>52</sup>

The only previous count of video gambling devices is an internal report completed by the Baltimore County Police Department in 1993.<sup>53</sup> That study found 978 gambling devices in the County. The 12 years since that study have seen a 40 percent increase. No similar figures are available for the city.

#### **IV. LOSS OF REVENUE**

To establish a revenue figure, the number of machines was multiplied by the estimated gross receipts for each machine, which range from \$26,000 to \$52,000 a year (or \$500 to \$1,000 a week). These estimates come from interviews with several former bar owners, Baltimore City vice detectives who have seized and counted money inside dozens of machines, as well as estimates from James Douglas Dunlap of the FBI, who has been involved in gambling investigations for 28 years. The industry's gross annual income was then calculated in the range between \$91 million and \$181 million — \$55 to \$110 million in the city and \$36 to \$71 million in the county. These figures are in line with the 1993 internal report completed by the Baltimore County Police Department,

which estimated gross income at \$1,000 per machine per week, with the total county gambling machine income of \$52 million a year.<sup>54</sup>

The Admission and Amusement tax, which is collected from coin operated devices that include both games and video gambling devices, is set at 10 percent of gross receipts. The state collects this tax and turns the money over to the local jurisdictions. Based on the above revenue estimates, annual tax for Baltimore City and County combined should be \$9.1 million to \$18.1 million. Baltimore City should receive a tax of \$5.5 million to \$11 million, and the county should receive \$3.6 million to \$7 million.

In fact, in 2005 the state collected \$1.3 million for Baltimore City and \$1.5 million for Baltimore County – which means that vending operators are reporting a gross income of \$13 million in the city and \$15 million in the county. (The reported revenue from gambling devices is actually less because these totals include income from real games.) Consequently, the industry is underreporting its income by an estimated \$63 to \$153 million each year. Baltimore City is losing \$4.2 to 9.7 million a year in Admission and Amusement taxes, and the county is losing \$2.1 to \$5.5 million each year. The state and federal governments are losing millions more in state and federal income taxes, which are more difficult to calculate.

Even if Maryland received the full tax that reflects the slot machines' true income, that amount would still be a fraction of what other states receive from legal slots. For example, the Delaware state general fund received \$204 million from slots revenue at its three slots locations in Fiscal Year 2005.<sup>55</sup>

Since the city and county fail to differentiate between a “real game” and a “gambling machine,” the fees are the same. Baltimore City charges \$180 per machine, and an extra \$50 for each machine licensed by a vending company. The vending company also pays a one-time \$200 annual fee. In 2005 the city collected \$657,727.20 in fees for its 3,650 amusement devices that include 2,100 gambling machines.<sup>56</sup> Baltimore County also charges \$180 per machine. An additional \$50 per machine is added for machines owned by vending companies, which also pay a one-time \$200 annual registration fee. The county’s total for 2005 was \$670,488 for 3,179 Amusement Devices, 1,371 of which are gambling machines.<sup>57</sup>

## **V. STATEWIDE INVESTIGATION: OPERATION QUARTERMATCH**

The first large scale investigation into this illegal slots industry occurred in 1984 when several state law enforcement agencies, headed by the Maryland State Prosecutor’s office, collaborated on a “huge multi-agency investigation” called Operation Quartermatch, designed to “attack the lucrative illegal video-poker machine gambling industry.”<sup>58</sup> Investigators from Anne Arundel County, Baltimore City, Baltimore County, and the Maryland State Police focused on vending company owners committing tax fraud, rather than filing gambling charges against tavern owners, a practice that had proved an “ineffective deterrent” in the past.

In March 1985, the state seized records through 84 search warrants. It charged 25 people and 11 vending companies (most located in Baltimore City and County) with failure to pay Admissions and Amusement taxes levied on coin operated amusement devices, as well as other state taxes. Many were also charged with illegal gambling. Law enforcement agents also seized 300 video-poker machines (worth \$2,000 to \$4,000 each).

Auditors from the Maryland Comptroller's office and the State Prosecutor's office analyzed records and trials were held in 1986. In some cases, auditors found two sets of accounting books – one falsified, showing income reported to tax collectors and a second, true accounting showing much higher income from the machines.<sup>59</sup> The investigation proved that “video poker machine gambling in Maryland is big business.” Analysis of the records seized from eight vendors showed that they grossed \$34,248,220 between January 1, 1982 and March 1, 1985, but only reported income of \$13,242,655.<sup>60</sup> Income of \$21,005,565 over a little more than three-years was unreported.

The investigation also showed that the problem, though concentrated in the Baltimore metropolitan area, was spread throughout state and included gambling in Harford, Carroll, and Frederick counties. Investigators felt that Quartermatch did not stop video poker gambling, but it “made some inroads into recent illegal profits of the largest vendors.”<sup>61</sup>

## **VI. COURT RULINGS**

### **Rossville Vending v. Comptroller**

Rossville Vending Machine Corporation operated in Baltimore County for decades before Operation Quartermatch caught up with it in 1986. That year, Rossville and its president Joseph J. Stonik, were convicted of gambling and ordered to pay \$60,000 in fines. Stonik was given a one-year suspended sentence and probation in district court.<sup>62</sup> The conviction and fine were just the beginning of Rossville's problems with the court system.

This tax case which grew out of the Quartermatch investigation began with a dispute between Rossville and the Maryland Comptroller's office over the method of paying the Admission and Amusement taxes collected on "gross receipts" of coin operated "games" that include video gambling devices.<sup>63</sup> The case went to the Court of Special Appeals in the early 1990s. The vending company argued that the illegal payouts to gamblers were not part of the company's "gross receipts" and therefore not subject to Admissions and Amusement taxes. The state argued that all money taken into a vending machine – including the illegal payouts - should be subject to taxes.

The court ruled against the vending company and ordered Rossville to pay \$736,033 in back taxes, upholding a Baltimore County Circuit Court decision by Judge James T. Smith, Jr., now Baltimore County's Executive. All parties in the case admitted

that their arguments revolved around an illegal industry. The Court wrote, “It was conceded that such payouts constituted violations of Maryland’s anti-gambling laws.”<sup>64</sup> Rossville’s lawyers admitted that bartenders paid out winnings to gamblers and were reimbursed by Rossville from machine proceeds. The remaining money in the machines was split 50-50 between Rossville and the bar owners.

An auditor for the comptroller’s office conducted an amusement tax audit on records seized from Rossville and calculated the actual gross receipts from the machines including the payouts to players. He found a deficiency (from previous taxes paid) of \$859,560. (The amount was later lowered to \$736,033.98 during court proceedings.)

The case prompted an unusual discussion - not about why illegal gambling was rampant in Baltimore County bars but whether or not the vending company should be paying taxes on money it makes and then gives away as illegal payouts. Rossville argued that gambling payouts should be treated as “trade discounts” because they were necessary “to maintain its competitive position” in the industry. The Maryland Court of Appeals wrote in its decision that “The Comptroller’s office acknowledged that those payouts were an integral part of the video poker industry because the payouts were a financial necessity to encourage play of the machines.”<sup>65</sup>

The court ruled against Rossville, but the company only paid \$80,000 toward the tax lien, while interest and penalties mounted. Today, a tax lien of \$1.1 million remains on file in the Baltimore County Courthouse with no notice that it was ever satisfied.<sup>66</sup>

Officials from the Maryland Comptroller's office say state law prevents them from discussing the case.

While the Court of Special Appeals ruled in 1992 that vending company owners must pay Admission and Amusement taxes on the illegal payouts to gamblers, interviews with former bar owners and law enforcement officials suggest that vending machine owners have not obeyed the court ruling. Several former bar owners revealed that income statements they received from vending machine owners did not include payouts. As stated above, one former bar owner, speaking anonymously, said he went along with the vending company's practice of reporting only 10 percent of income to tax collectors-- and that was after subtracting payouts.

In 2005, state corporation records document that Rossville Vending Company is no longer a viable corporation, though it maintains a listing in the phone book. Stonik, Rossville's president, is still in the video gambling business and is among the seven largest vending company owners in the Baltimore area. City and Baltimore County records for 2005 show that Stonik has registered 101 video gambling machines: 29 in Baltimore City and 72 in Baltimore County.

The machines are registered under new company names: RVMC, an entity not registered as a Maryland corporation, C&J Amusements LLC, and a third entity that is called 8912 Investments LLC. The number 8912 is the address at Yellow Brick Road in Essex where state officials seized a briefcase in 1985 with the company's records that

started Rossville's tax and gambling troubles.<sup>67</sup> Stonik did not respond to a request for comment for this report.

### **State v. One Hundred Fifty-Eight Gaming Devices**

In 1985, Maryland's highest court ruled that video poker machines are designed for illegal gambling and violate Maryland law even without the proof of undercover police detectives getting paid winnings.<sup>68</sup> Known as the "One Hundred and Fifty-Eight Gaming Devices" case, The Court of Appeals upheld an Anne Arundel County Circuit Court judge's decision ordering the forfeiture of video gambling machines found in a warehouse.

The lower court ruled that the machines were illegal because they had "knock-off" switches that were "presently adopted to register rewards obtained by chance and to facilitate undetectable human payoffs..." The high court agreed. It ruled in favor of seizing the devices, "which involved an element of chance and which were equipped with odds mechanisms, or a meter for recording the number of free plays released, or other established indicia of a gambling device, are illegal slot machines ...and subject to forfeiture as contraband..."<sup>69</sup>

The same year, the U.S. District Court for the Western District of Pennsylvania ruled that the "knock off switch" was evidence a machine is used for illegal gambling and that, "...it is important to note that evidence of actual payoffs, either directly by a

machine or indirectly by a bartender who redeems credits for cash, is not necessary to a determination that a machine is a gambling device.”<sup>70</sup>

## **VII. GOVERNMENT RESPONSE**

### **Maryland Office of the Comptroller**

In the 1980s, Operation Quatermatch determined that eight vendors had unreported income of \$21 million during a little more than a three-year period. That was in the 1980’s, when the gambling machines accepted quarters. Today they take bills (\$1’s, \$10’s, \$20’s, \$50’s and \$100’s) and machines are located in many more locations. It follows that the unreported income and the unpaid taxes have multiplied.

In 2005, interviews were conducted with the director and assistant director of the Compliance Division of the Maryland Comptroller’s Office to learn what the agency has done since Quatermatch to assure that vending companies pay the actual taxes owed. They said that with no government-controlled tracking system their office cannot collect full taxes because it has no way to prove how much money comes into the machines.<sup>71</sup> They acknowledged that vendors are still on the honor system. The machines have counters that track cash but these are seen only by bar owners and vending company employees, called “route men,” who empty the machines.

However, the Comptroller's office does attempt to monitor the industry. In the past four years auditors have completed 22 audits of coin-operated machine companies and have assessed \$1 million in taxes due from unreported income.<sup>72</sup> The compliance division chiefs noted that their auditors are limited by the accounting books available at vending companies. If they are lucky, auditors may find two sets of books, one real and the other falsified. Otherwise, the chiefs have few ways to detect if the records are altered or inaccurate, except for the occasional suspicion when a machine in a busy bar is shown to have no income. They say that unless there is a search warrant, auditors cannot search a vending company for a second set of accounting books that might show the true income.

The compliance chiefs also noted that their resources are limited – there are only 100 employees in the audit office to complete all types of state audits. As for the Court of Special Appeals ruling from the Rossville Vending case that requires Admission and Amusement taxes to be paid on the portion of the profits that are paid out to gamblers, the chiefs said that with no proof of revenue, they can not enforce the court's order. "We have no way of knowing if payouts to gamblers are included in gross receipts. We base it on records available to us and the reasonableness of those records," said Linda Tanton, Director of the Comptroller's Compliance Division, in a 2005 interview. Citing state confidentiality laws, the directors also declined to say whether any vending companies have been fined or otherwise punished for failing to pay taxes on amusement devices.

Despite the limitations mentioned above, in November 2005 the comptroller's office announced it had filed a lien against a Pasadena vending company, Statewide Amusements Inc., for \$953,515 in unpaid taxes from unreported income. The company's machines, some of which were found during a raid on the Owl's Nest, a South Baltimore club, are not registered with Baltimore City or Baltimore County.<sup>73</sup>

This study sought, under the Maryland public information law, any correspondence the Comptroller's office has received concerning video gambling machines. The office provided an e-mail sent to Governor Robert Ehrlich in April 2004 from a former Baltimore community activist and bar owner who complained that the state continues to lose taxes from gambling devices, despite proof of unreported income from Operation Quartermatch.<sup>74</sup> The e-mail read in part:

This report was sent to the legislature... You might want to review what action they did not take!! It would make more sense to install remote meters and collect all these taxes rather than link a general tax increase to the slots bill...

The Governor's Office responded with a letter, signed by Ehrlich, referring the complaint to Comptroller William Donald Schaefer. The Governor's Office also sent a separate letter to the Comptroller asking him to review the matter. When asked what the Comptroller's Office did about the complaint, the Compliance Directors said they did not follow it up because the complainant did not name any specific vending companies.

## Liquor Board

Baltimore's underground slots industry could not have blossomed all these years without the help of the local liquor boards. Mandated to keep criminal activity out of businesses with liquor licenses, the liquor boards' actions – or inactions - have instead allowed the illegal gaming business to thrive. Baltimore City's liquor board metes out modest inconsequential fines.<sup>75</sup> Baltimore County's liquor board hears no cases involving illegal gambling machines, despite *The Sun's* 1980 expose and the 1985 Quartermatch report showing a booming slots industry in the jurisdiction.<sup>76</sup>

The Baltimore City liquor board scandal of the late 1990s is instructive. During the trial of then Chief Liquor Inspector Anthony J. Cianferano, evidence revealed that he and other liquor inspectors had side jobs emptying the gambling machines for co-defendant William J. Madonna, Jr., a former state legislator, bar owner, and vending machine owner.<sup>77</sup>

One bar owner testified at the trial that the chief liquor inspector brought Madonna to her bar in the early 1990s so Madonna could loan her money and place poker machines there. The bar owner testified that she and Madonna would split the vending machine proceeds 50-50 after money was paid to gambling winners. The bar owner said illegal payouts were made routinely to gamblers but that the liquor board never cited her bar for violating gambling laws. One liquor inspector did stop emptying the machines,

but only after the bar owner complained to Madonna that the inspector was stealing some of profits.<sup>78</sup>

Although the liquor inspectors who were paid to empty video gambling devices no longer work for the city liquor board, the current board continues a long-standing practice of treating gambling violations as minor infractions. The following examples show a pattern of fining liquor licensees a tiny proportion of the income their businesses reap. Police reports of raids also show evidence of the large amounts of cash kept in bars with gambling machines:

- Sid's Tavern at 1100 Washington Boulevard was charged at a hearing on April 28, 2005, with violating the liquor board's Rule 4.15, which holds, "No licensee shall allow his premises to be used for the purpose of gambling in any form."<sup>79</sup> Evidence showed a city police detective who played a gambling machine was paid off on December 7, 2004. Police returned with a search and seizure warrant and confiscated \$8,107 in cash from the machines, a safe, a drawer and other locations in the bar. They also disabled six gambling machines by confiscating power packs and microprocessors and took 40 folders with records of gambling payouts, plus a payout tally sheet.<sup>80</sup> In district court the business operator was given probation before judgment.<sup>81</sup> The city kept the seized money. The liquor board found the owners guilty and fined the bar owner \$100, plus \$125 in administrative fees.

- Fred & Marge's Inn at 3603-05 Fairhaven Avenue was tried at a March 2005 hearing for illegal gambling after an undercover police officer played a video gambling machine, racking up 800 points and winning \$40 from a bartender who wrote the payout

on a tally sheet, then reset the machine by placing a metallic object against 2 rivets on the side of the machine. The detective watched the credits jump from 800 back to 0. Police later seized machine power packs and microprocessors from five gambling machines, as well as \$37,120 from the machines and elsewhere in the bar. They found \$23,955 in an upstairs kitchen cabinet.<sup>82</sup> In district court, one owner received probation before judgment and the other had her case put on an inactive docket. The owners forfeited 75 percent of the money seized.<sup>83</sup> The liquor board found the bar owners guilty and fined them \$100, plus \$125 administrative fee.<sup>84</sup>

- Global Liquors, 4332 Erdman Avenue, was tried at a November 2004 hearing for making payouts to police detectives on two occasions in June 2004. Police later seized \$9,836, most of it found in a leather bag in the store. They also seized the power packs and microprocessors from two gambling machines.<sup>85</sup> In District Court the charges were put on an inactive docket and the money was forfeited.<sup>86</sup> The liquor board found the bar owners guilty and fined them \$200, plus a \$125 administrative fee.<sup>87</sup>

- Bay City Liquors, 4901 Frankford Avenue, was tried in September 2004 after a police detective was paid out \$22 for playing the video gambling machine. Police later seized \$8,046 from the store, including money, power packs, and microprocessors from four gambling machines.<sup>88</sup> In court, the case was put on an inactive docket and the business received about half the money back.<sup>89</sup> When the case got to the liquor board, the board members hearing the case departed from their usual fine of \$100. A liquor board member apparently took pity on the owner, saying, “You’re going to lose \$8,000 so the board’s going to suspend that \$100 fine. You’re going to pay a \$125 administrative fee. That’s it.”<sup>90</sup>

- Six Pax n More, a liquor store at 5911 Belair Road, was found guilty of making payouts to an undercover police detective in June 2004. Police confiscated the power packs and microprocessors to four machines and seized \$5,539.<sup>91</sup> The district court put the charges on an inactive docket and the owner forfeited the money.<sup>92</sup> The liquor board found the owner guilty and fined him \$100, plus the \$125 administrative fee. Mark Fosler, the board's chairman, told the owner, "-- we're not condoning with such a small fine, we're not condoning gambling. You lost \$4,500 so it's an expensive lesson to learn, so we don't want to see you here again. Take care and good luck." <sup>93</sup>

Baltimore City's Board of Liquor License Commissioners routinely hears cases on the sale of liquor licenses from well-known vending company owners acting as secured creditors or contract purchasers of bars never licensed in their names. The city liquor board approves these transactions, even though the seller of a liquor license may not be the licensee of record and does not meet the eligibility requirements for a license. For example, the board approved the transfer of a liquor license to an East Baltimore bar from Gilbert Sapperstein, contract purchaser, a month after he pleaded guilty to a multimillion dollar fraud scheme. Liquor board law prohibits Sapperstein, as a convicted felon, from owning a liquor license, but the board let him sell one.<sup>94</sup> Other vending company owners who have appeared in liquor board records as "secured creditor" or "contract purchaser" are Carroll Bond and John Zorzit.<sup>95</sup>

Baltimore County's Board of Liquor License Commissioners hears no cases concerning the use of video gambling devices, despite regulations that allow the board to

punish liquor licensees for gambling. In an interview for this report, the liquor board's administrator, George Abendschoen, said, "The liquor board does not get involved in that. We don't ever handle them." Even if a liquor inspector saw a payoff, "We would turn it right over to the vice squad." He acknowledged that the machines are "all over the place, but they're not illegal," he said, "unless there's a payoff."

## **Law Enforcement**

Seizing gambling machines (or their computer boards) and charging bar employees with illegal gambling is a useless exercise: new machines replace the ones that were confiscated or damaged by police in a few days. Business owners learn after their first arrest how to hide their money and their gambling payout sheets, which they often write in code.<sup>96</sup> There is an additional problem of where to store and discard confiscated machines. County police store the machines on county property until court cases are complete, and then discard them. In 2004 the county seized 68 machines.<sup>97</sup> City police take only the power packs and computer boards.

Vice police are swimming against a tide of government agencies that facilitate the use of the machines. Local prosecutors routinely drop or set aside charges and recommend probation. District court judges follow suit, though they often allow the city and county to keep thousands of dollars seized in raids. For example, by November, 2005 the city's vice squad, under the direction of Sgt. Craig Gentile, seized about \$400,000 from 37 search and seizure warrants for gambling on the machines in 2005.<sup>98</sup> Most of the

cases were against business owners and their employees where the vending machines were located. In Baltimore County, police also charge the vending company owners.

In 2005, Baltimore City's vice squad tried a new tactic: They targeted the vending companies that control gambling machines in dozens of locations, rather than conduct raids on individual bars and stores. For example, the city's vice squad conducted surveillance and raided Carbond Inc., also known as Bayside Vending.

The investigation began on December 1, 2004, when two undercover detectives visited J & P Carryout at 1538 Light Street in South Baltimore, where they saw three video gambling machines. One detective began to play a machine called "Monkey Land." After a half hour, he had accrued 500 points, earning him winnings of 5 cents for each point. A J & P employee "looked at the screen and waved his hand on the left side of the machine...which caused the points to roll back to zero," stated a police record of the surveillance.<sup>99</sup>

After the employee reset the machine, he summoned the detective to the counter, where he paid him \$25 from the cash register. Police returned on December 16 with a search and seizure warrant. They confiscated nearly \$5,000 from a safe and \$700 from a cash register. Police also took the microprocessors and power packs from the machines and pay-out slips showing money paid to gamblers. A police interview with the store's owner revealed that Bayside Vending (Carbond) owned the machines and that the profits were split 50-50 between the vending company and the carryout owner.

On December 21, detectives conducted surveillance at Carbond's headquarters at 5501 Pulaski Highway, observing several gaming machines through an open doorway. Two detectives followed one of the company's trucks to New York Liquors at 4011 Old York Road, where they watched the driver deliver a "Cherry Master" gaming device. A passenger from the Carbond truck also went inside and spoke to a man behind a counter. One of the detectives entered the store and bought chips and sodas as he overheard the representative from Carbond instructing the employee at New York Liquors on how to operate the video gaming devices illegally. Detectives later followed the truck back to Carbond's headquarters.<sup>100</sup>

On January 13, after obtaining a search and seizure warrant, detectives raided Carbond's headquarters and confiscated about \$8,000, envelopes with weekly collection sheets, bank statements, and other documents. They also took 371 microprocessors – the guts of a gambling machine – and 84 power packs. Gambling charges were filed against Bond and an employee whom police identified as the man who gave instructions at the liquor store.

When the case came to court, a judge dismissed all charges because a prosecutor failed to answer a routine motion filed by Carbond's attorney requesting a list of witnesses.<sup>101</sup> The city returned the money and other evidence it seized in the raid. In the J & P Carryout case, the city kept the confiscated money. A visit to J & P Carryout almost a year later showed it was back in business with two licensed machines. A similar case

against Carbond in 2005 resulted in the case being ‘stetted’ or put on an inactive docket. In that case the city kept the \$13,000 it seized from Carbond and \$18,000 from two businesses that carried Carbond’s machines.<sup>102</sup>

As with the case of J & P Carryout, police efforts are often cancelled out when the city and county registration offices routinely approve licenses for new machines to replace those confiscated or damaged by police. For example, the operator of a convenience store called the Greenish Grocery, at 449 E. 25<sup>th</sup> Street, sought licenses for new machines in a letter to the city finance department in July 2005. The operator complained that police damaged four “amusement devices” but that Bayside Vending would be replacing them in a few days.<sup>103</sup> Likewise, in Baltimore County the operator of Milano’s Restaurant and Carryout at 8811 Waltham Woods Road wrote a note to the licensing office in August 2005, explaining that Bayside Vending would be delivering two new machines, four days after county police confiscated three video gambling machines.<sup>104</sup>

The United States Attorney’s Office for the District of Maryland has not directed any investigative efforts into this industry until recently. Federal officials in Baltimore have uncovered what they believe is a multi-million dollar gambling and money laundering operation with 500 video gambling machines in 110 locations in 15 states, including Maryland.<sup>105</sup> Although no criminal charges had been filed as of December 2005, the U.S. government has already seized a private Cessna jet and \$1.7 million from Truck Stop Games LLC, owned by Horace K. Farrish of Virginia. Federal seizure

warrants and affidavits describe an investigation tracing revenue laundered through several bank accounts, with some of the money spent to purchase the jet, which was used to move gambling machine parts and boxes of cash from state to state.<sup>106</sup>

The investigation began with a call to the federal government from the Queen Anne's County Sheriff's office, which had received a complaint from a citizen who saw video gambling machines at a Trailways Truck Stop in Centerville. The investigation was conducted with the help of undercover police from several local law enforcement agencies and a special agent from the Internal Revenue Service. At several Maryland and Virginia locations, detectives played the machines and were paid out their winnings. Raids were conducted in February 2005 at three Maryland locations, one in Baltimore city.<sup>107</sup>

Federal agents confiscated 41 video gambling machines (including 15 from the Baltimore Travel Center).<sup>108</sup> They also seized records showing the income and payouts, as well as \$17,015 in cash from the machines. Financial records seized from Truck Stop Games' office in Chester, Virginia, showed that revenue collections over a nine-month period for its multi-state operation totaled \$6.3 million. In naming the laws that may have been violated, federal authorities cited federal gambling and money-laundering statutes, as well as the Maryland Criminal Code outlawing slot machines.<sup>109</sup>

## **Department of Zoning**

Baltimore City's zoning code limits the number of amusement devices in city bars, bowling alleys, pool halls, and restaurants that own liquor licenses to five licensed machines. Other businesses (such as gas stations, convenience, and liquor stores) are restricted to 1 or 2 machines, depending on the business's floor space.<sup>110</sup>

Donald Small, the City's zoning administrator at the Department of Housing and Community Development, was unaware until confronted with research, that as of September 2005, hundreds of city businesses were violating the zoning code by keeping more amusement devices than the law allows.<sup>111</sup> Two examples are the Hampden Food Market, with 17 gambling machines (13 licensed), and Mt. Everest, with 10 machines (seven licensed). Each of these businesses is allowed one or two machines, depending on the floor space.<sup>112</sup>

Zoning violations were brought to the attention of officials in the Bureau of Treasury Management's Collection Division which operates under the Baltimore City Finance Department which grants amusement device licenses. At about the same time, the officials said they independently discovered businesses with too many machines and began consulting the zoning code.<sup>113</sup> Subsequently, the two agencies moved to remedy the situation. On November 17, 2005, the city mailed a new "Fact Sheet for Amusement Devices" with license renewal notices, informing all licensees of the city's zoning laws

limiting machines, and requiring new permit forms for a non-tavern or entertainment business restricted to one or two machines.

Four days after the city mailed the zoning letters, the Baltimore Licensed Beverage Association (whose president is vendor John Vontran) responded by requesting that the City Council put forward a bill that would amend the zoning code to increase the number of “amusement devices” allowed in bars and other city businesses.<sup>114</sup> The bill is sponsored by nine City Council members, including President Sheila Dixon. Whether or not the bill passes, the problem in the city is even larger than the hundreds of zoning violations. As stated above, many of the city’s amusement devices – especially video gambling machines – are not licensed by the city, as required by law.<sup>115</sup>

Considering the large volume of zoning and registration violations, it is clear that the collection division and the zoning office do not have enough inspectors to enforce the laws. The zoning office has six zoning examiners whose many duties include going out in the field once a week to check complaints. The collection division only has four part-time inspectors to review the many types of licenses the city requires. Now they will also be required to help monitor the zoning laws. A crackdown on zoning laws – and on unlicensed machines – would require many more inspectors than are currently employed at each agency.

Unlike the city, Baltimore County does not appear to have many violations of its zoning regulations. The county has 13 inspectors (some with more than ten years’

experience) to visit businesses with the machines and check for licenses and zoning violations.<sup>116</sup>

## **VIII. CAMPAIGN CONTRIBUTIONS**

This study examined Maryland's campaign finance records for the past six years, available on the Maryland Board of Election's website, to determine how much money vending companies and their owners donate to political campaigns. Contributions from 54 of the largest vending companies were searched, as well as 61 names of people listed as company principals in public records. The contributions from licensed vendors total \$42,598. No pattern of contributions was found that favored any candidate.

The bulk of the contributions come from John Vontran, the sole officer registered in Maryland corporate records for Amusement Vending Inc. Mr. Vontran's company has 69 gaming devices registered in the city and 24 in the county. He also owns a bar in Southwest Baltimore, is the outgoing president of the Baltimore Licensed Beverage Association, and is a director of the Maryland Licensed Beverage Association.<sup>117</sup>

His \$25,612.50 in contributions since 1999 appear to violate Maryland's campaign finance laws, which restrict contributions to \$10,000 from one individual over a four-year campaign cycle. Vontran gave \$14,300 in 2003 alone.<sup>118</sup> In an interview on November 28, 2005, Vontran said the state's listing of campaign contributions from his

name was in error. Many of the contributions, he said, were not from him, but “from business people and family members.” He said his lawyer was in the process of straightening out the situation with the Maryland State Prosecutor, Robert A. Rohrbaugh, and that corrections would be made in January campaign finance reports. Rohrbaugh said through a spokesman that he does not confirm or deny allegations of investigations by his office.

In contrast to Vontran’s contributions, the area’s largest video gambling company gave no campaign contributions. State records show nothing for Carbond Inc. (formerly called Bayside Vending) or from its owner, Carroll Bond III.

## **IX. LESSONS FROM OTHER JURISDICTIONS**

### **Carroll, Harford, Prince Georges, and Anne Arundel Counties**

Baltimore City and County governments are isolated in their tolerance of video gambling devices. In their own backyards, particularly in Carroll, Harford, and Anne Arundel Counties, the governments do not allow these machines to be licensed and in some cases the local prosecutors have teamed up with liquor boards to keep them out. While it is difficult to determine whether Carroll, Harford, and Anne Arundel are free of video gambling devices, law enforcement representatives say it is rare to see the machines in their counties because of their no-tolerance position.

In Harford County, States Attorney Joe Cassilly is emphatic about his opposition to the machines: “They’re illegal as far as I’m concerned...I think they should really be gotten rid of.” Cassilly began working more than a decade ago with the Harford County Sheriff’s office and the Maryland State Police to clear the machines out of his county. Like Baltimore City and County, undercover officers visited businesses where the machines were located, played them, and were paid off.

Cassilly said he was more successful in cleaning the machines from his county when “I got the liquor board on board. It basically comes down to, ‘if you’re going to have these machines, you’re not going to have a liquor license.’” He also cracked down by confiscating gambling machines, even without evidence of a payoff, because of the Court of Appeals’ 1985 decision (*State of Maryland v. One Hundred and Fifty-Eight Gambling Devices*) which said the machines were illegal without evidence of payoff.<sup>119</sup>

Cassilly also stated that he has complained to the state comptroller’s office and to the IRS over the years about the unpaid taxes from the machine, but got no response. One bar that was raided several years ago, he said, “had six machines...they were splitting with the vending company and they were keeping three-quarters of a million dollars in a year.” Noting that the machines had no legal license in Harford County, he wondered how businesses could report income to tax collectors on machines they were not allowed to possess.

Jerry Barnes, Carroll County's states attorney, has made similar inroads to rid his county of gambling devices by enlisting the local liquor board and confiscating machines even without seeing payoffs. "They're not amusement devices," he said. Barnes also takes a tough stance against veterans clubs and other fraternal organizations that use the machines to make money. "I'm a Vietnam veteran, a Green Beret...A lot of people in my position would be reluctant to go after a fraternal organization or a military organization, (such as) American Legion, but my position is that every one is treated equally," he said.

In March 2005, Prince Georges ` States Attorney Glenn F. Ivey announced that his office and county police were investigating the use of illegal slot machines that had appeared in liquor and convenience stores in the Washington suburb.<sup>120</sup> State lottery employees had seen machines in taverns and coin laundries in Suitland, Riverdale Park and Takoma Park, and worried that they might be siphoning business from Keno and other legal lottery games.

The county liquor board chairman also told a House of Delegates subcommittee that the inspectors who found the machines instructed store managers to unplug them.<sup>121</sup> Ivey later said in an interview for this study that the investigation was not complete. His office, he said, is reviewing state law to determine "what's legal and what's not legal. The machines certainly appear to be used in gambling. Obviously that could cause problems."

Anne Arundel County is another jurisdiction that does not permit video gambling devices and will not license them as games, said Anne Hatcher, the county's chief of licensing and permits. When her office finds a gambling device, she refers the case to the county police department's vice unit, she said.

## **Pennsylvania**

In 2004, Pennsylvania began to prepare for a legal slots industry that would allow 61,000 slot machines at racetracks and other locations. One of the first steps was an attempt to get rid of the competition – illegal video gambling devices spread out across the state. In an in-depth newspaper article, *The Pittsburg Post-Gazette* laid out a plan by Governor Edward G. Rendell to spend \$5 million a year for local police departments to enforce gambling laws and “prevent the unlawful operation of slot machines in this commonwealth.”<sup>122</sup> The article referred to a “hypocritical approach” to illegal gambling by local governments that license amusement devices, but fail to check the machines for evidence of illegal gambling.

The article also noted a historically corrupt relationship between illegal gambling machines and local law enforcement officials in Pennsylvania. The state attorney general pleaded guilty in 1995 to mail fraud, admitting he concealed campaign contributions from video-poker operators. Five years later, a local police chief pleaded guilty to playing poker machines at a township deli where he received \$7,500 in gambling payouts over 16

months. In 2001, a local justice was convicted in federal court of running a video poker operation out of a coffee shop in Finleyville, a town with a population under 500. The federal prosecutor who handled the case called video poker, “the most lucrative illegal enterprise in Western Pennsylvania.”

In addition to crackdowns from local law enforcement, federal prosecutors, working with the IRS and Pennsylvania State Police Department’s Bureau of Liquor Control Enforcement, charged a private club with illegal gambling in February 2004.<sup>123</sup> They accused the Order of Fleas, a men’s social club in Easton, Pennsylvania (one hour north of Philadelphia) with grossing \$8.4 million in untaxed income from video poker machines over a ten-year period. The U.S. Attorney’s office described the operation as a “well orchestrated conspiracy to operate below the radar of federal reporting requirements.”<sup>124</sup>

In May 2004, the Associated Press reported that federal law enforcement officials destroyed more than 120 video gambling machines worth more than \$160,000 from the “Order of Fleas” operation. The *Pittsburg Post-Gazette* article also referred to the Order of Fleas case, quoting Assistant U.S. Attorney Robert Goldman as saying the club members fed about \$100 million into 15 video-poker machines during the ten-year period. He said that without the machines, the Fleas club had “barely a pulse.”

While it is difficult to determine how successful Pennsylvania law enforcement authorities have been in eliminating illegal slot machines, these examples serve to

demonstrate the different responses to the video gambling industries in Pennsylvania and Maryland.

### **Best Practices from States with Legal Slots**

States with legal slot machines require background checks for nearly everyone working in the industry, from machine repair workers to corporate executives of gaming companies. Pennsylvania, fresh from a 2004 legislative approval to license 14 locations with 61,000 slots, faces a daunting task of conducting 30,000 background checks of applicants to filter out organized crime, so well-known in Pennsylvania's crime history. The checks will include low-level workers of slots operators, casino suppliers, and vendors. One-fifth of the background checks will involve in-depth investigations of executives and managers.<sup>125</sup>

Other states have separate government entities to make the background checks. New Jersey uses an independent division of its attorney general's office, while Michigan's gaming control board uses an internal bureau.<sup>126</sup> In Nevada, all gaming employees are required to hold work permits issued by local law enforcement agencies that require background checks and fingerprinting. Some of the employees also must be bonded.<sup>127</sup>

Tracking systems inside slot machines are so sophisticated that a *New York Times* editorial once suggested that the operators of controversial electronic voting machines

could learn something from Nevada's tightly controlled slot machine tracking system. "If election officials want to convince voters that electronic voting can be trusted, they should be willing to make it at least as secure as slot machines," said the *Times* editorial of June 13, 2004.

The editorial described how Nevada requires casinos to file all gambling device software with the Nevada Gaming Control Board and how state inspectors arrive unannounced at casinos to compare the computer chip in a slot machine with the one on file with the government. In fact, Nevada's "Technical Standards for Gaming Devices and On-Line Slot Systems," is a voluminous document that outlines how each slot machine must communicate its exact intake and output of money with sophisticated meters and insure the machine is tamper-proof.<sup>128</sup> Other states have similar systems, but in Delaware, where slots have been legal for ten years, the state does not allow casinos to own slot machines. Instead, each machine is leased by the state and hardwired back to the lottery office, just like a lottery machine.<sup>129</sup>

State governments are demanding – and getting – more money from the slots industry than ever before. Pennsylvania's new law, for example, requires a \$50 million fee for every entity that will operate a slots palace. The law also makes the slots industry so lucrative that the Pittsburgh City Council unanimously passed a resolution in September 2005, asking the mayor to apply for a slot machine license on behalf of the city. Pittsburgh already stands to gain \$17.7 million in annual tax revenue from slots. But if the city became a casino owner, reasoned the city council president, it could reap \$250

million.<sup>130</sup> In Fiscal Year 2005 (ending June 30, 2005), Dover Downs earned \$193 million after paying out winnings. Of that income, Delaware's general fund received \$69 million.<sup>131</sup> That \$69 million was part of a total \$204 million from all slots revenue (from a total of 6,500 slots) that went into the state's general fund.<sup>132</sup>

While Maryland pretends there are no gambling machines and licenses them as cheaply as Pac Man or golf games, states that have legalized the machines charge steep fees to vendors, in addition to imposing a high tax rate on the profits. In California, three Native American tribes agreed in 2004 to pay the state \$1 billion for the right to have an unlimited number of slot machines. Licensing fees would also rise to as much as \$25,000 per machine.<sup>133</sup>

In many states where slots are legal, licensing fees for suppliers of slot machines are in the thousands of dollars per year. Illinois, Indiana and Missouri all charge a \$10,000 application fee and a \$5,000 annual license fee for suppliers. Louisiana charges slots manufacturers \$15,000 a year and slots supplier \$3,000 a year.<sup>134</sup>

## **X. RECOMMENDATIONS FOR CHANGE**

Why have slots if the government doesn't benefit? No roads or schools will be built; no tax rate will be lowered from the meager proceeds Maryland gets from its virtually tax-free slots. It would be ineffectual for Maryland politicians to debate the issue in Annapolis without first considering that they already have a gaming industry

ensconced in the Baltimore metropolitan area. This study shows how large the industry has grown and how much the state is losing by allowing it to continue. The evidence can be debated but not ignored. There are two possible ways to correct this problem.

1. Ban the machines, either by passing stronger anti-gambling laws or using laws already available to the police, courts, liquor and zoning boards, and other licensing agencies. This choice would undoubtedly require hiring inspectors to enforce the ban and more vice police to charge recalcitrant machine operators. It would also require a consciousness-raising on the part of local liquor boards, prosecutors and district court judges who have been lax in enforcing the current laws. The elimination of the devices, however, would most likely put some bars and convenience stores out of business.

2. Legalize the machines -- with all the controls available from today's gaming industry that insures an honest accounting of revenue with the state getting its proper share. Legalizing the machines proved too controversial before states outside Nevada were familiar with legal gaming. But today, sophisticated computer technology is used in every state where slots are legal and governments are finding more ways to milk the industry for taxes and fees. This alternative, however, would likely result in banning many of the current machine owners from the industry due to their criminal records or prior failure to pay taxes. Many of the current businesses carrying the machines would also likely face opposition from residential and commercial neighborhoods that oppose them.

Maryland citizens are the losers with the current system. They have a gaming industry that puts little money in the public coffers and allows vending machine owners to dodge the law and enrich themselves at the cost of compulsive gamblers, alcoholics and indigent people with few dollars to spend. The challenge is there for citizens and lawmakers.

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<sup>1</sup> The income range comes from multiplying the count of gambling machines registered in Baltimore City and County with an estimate of \$500 to \$1,000 a week income per machine. These weekly income estimates are based on interviews with city and county vice detectives who count cash inside gambling machines they seize, police reports and calculations by gambling expert James Douglas Dunlap, FBI supervisory forensic examiner, who is also a retired Baltimore County vice detective. The numbers were also verified with several former bar owners who shared in the machine profits.

<sup>2</sup> Report of the State Prosecutor, 1985 (Operation Quartermatch); the report noted that auditors from the Maryland Comptroller's office uncovered the unreported income of \$21 million.

<sup>3</sup> January 9, 2006 letter from Comptroller William Donald Schaefer to Abell Foundation President Robert C. Embry Jr. responding to a review of a draft of this report.

<sup>4</sup> Maryland Court of Appeals; State of Maryland V One Hundred and Fifty-Eight Gaming Devices, November 7, 1985.

<sup>5</sup> Maryland Comptroller's office, Compliance Division.

<sup>6</sup> Dunlap, Baltimore City and County vice, police reports, bar owners.

<sup>7</sup> The number was reached by subtracting the amount of income reported (based on the 10 percent amusement tax) from the actual income estimate.

<sup>8</sup> *Pittsburgh Post-Gazette*, January 2, 2005; Slots are Key to 'new Pennsylvania.' By Tom Barnes.

<sup>9</sup> Interviews with Ed Suter, Chief Operating Officer for Dover Downs and Wayne Lemons, Director of the Delaware Lottery.

<sup>10</sup> Forfeited corporations are those that have lost their legal status due to the failure to file necessary paperwork.

<sup>11</sup> Baltimore County's state tax lien records; lien #4977388, book 155, page 239.

<sup>12</sup> *The Baltimore Sun*, May 20, 2005, Boiler Company Owner Pleads Guilty to Fraud by Laura Loh.

<sup>13</sup> *The Sun*, January 8, 1999; Inspector Got Money, Jurors Told; Witness Testified City Liquor Official Stuffed Cash in His Pockets by Walter F. Roche Jr.

<sup>14</sup> *The Sun*, March 30, 1980, Illicit Gambling Rife in Taverns in Baltimore County by Katherine White

<sup>15</sup> Maryland Campaign Finance law, Chapter 7.2 Contribution Limits.

<sup>16</sup> United States District Court, District of Maryland – Northern Division, Affidavits in Support of Warrants on Truck Stop Games LLC; #05-0438 BPG, #05-0440 BPG, #05-0441-BPG, #05-04490. Seizures included slot machines and cash from the Baltimore Travel Center, 5501 O'Donnell Street.

<sup>17</sup> *Video Games: Concepts and Latent Influences, The element of skill becomes a primary factor in determine whether an electronic video device is a gambling device;* by William H. Holmes, special agent, document section, laboratory division, FBI from the Law Enforcement Bulletin, March/April 1985.

<sup>18</sup> *ibid*

<sup>19</sup> *Moverly v. Deskin*, 169 Mo. App. 678, 155 S.W. 844 (1913)

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- <sup>20</sup> *Pinball: gambling devices...or when is a pinball machine not a pinball machine?* By Ronald Mayo Ferguson, special agent, laboratory division, FBI, reprinted from the FBI Law Enforcement Bulletin and revised, March, 1982.
- <sup>21</sup> Ibid.
- <sup>22</sup> Ibid.
- <sup>23</sup> Holmes, FBI.
- <sup>24</sup> Ibid.
- <sup>25</sup> Holmes, interviews with James Douglas Dunlap, FBI supervisory forensic examiner, Baltimore City and Baltimore County vice detectives.
- <sup>26</sup> *The Sun*, March 30, 1980, Illicit Gambling Rife in Taverns in Baltimore County by Katherine White
- <sup>27</sup> ibid
- <sup>28</sup> *The Sun* gambling series, 1980.
- <sup>29</sup> Interviews with several former bar owners, including *Wised Up* author Charlie Wilhelm.
- <sup>30</sup> Interviews with Baltimore City and County vice detectives and city police reports.
- <sup>31</sup> Baltimore city and county registration records, interviews with vice police and the FBI.
- <sup>32</sup> Baltimore City and County amusement device registration records.
- <sup>33</sup> Interview with Gentile.
- <sup>34</sup> Baltimore City Zoning Code.
- <sup>35</sup> Ibid.
- <sup>36</sup> Ibid.
- <sup>37</sup> Baltimore City and County amusement device registration records.
- <sup>38</sup> Baltimore City registration records, *The Sun* Nov. 5 2005, Raid Riles Poker Players by Lynn Anderson.
- <sup>39</sup> *Wised Up* by Charlie Wilhelm with Joan Jacobson, 2004 Kensington Books, pages 111-114.
- <sup>40</sup> *Baltimore Guide*, January 13, 2006, Baltimore Liquor Board votes to close Joe's Tavern, by Mary Helen Sprecher. The violations that shut down the bar did not involve video gambling machines.
- <sup>41</sup> *Wised Up* By Charlie Wilhelm with Joan Jacobson, Kensington Books, 2004.
- <sup>42</sup> This amount is far higher than the average \$500 to \$1,000 a week law enforcement experts and other bar owners estimate comes into machines.
- <sup>43</sup> Baltimore City amusement device registration records.
- <sup>44</sup> *Wised Up*, *The Sun*, December 12, 1998, FBI Aims For Local Gambling; Owner of Restaurant on Belair Rd. among Six People Indicted; Bets Came By Phone; City Police Officer Suspected of Links to Illegal Betting Ring. By Peter Hermann. *The Sun*, June 23, 2000, Bookies jailed, but not police, by Eric Siegel.
- <sup>45</sup> Compiled from City and County amusement device registration records and Maryland corporate records.
- <sup>46</sup> Vending company data and owner names come from city and county registration records, as well as corporation records from the Maryland Department of Assessment and Taxation.
- <sup>47</sup> *The Sun*, The Informant, the Man who Knew Too Much, November, 2001, by Joan Jacobson, *Wised Up*
- <sup>48</sup> *Wised Up*.
- <sup>49</sup> Ibid.
- <sup>50</sup> Interview with Linda Tanton, Director (now Deputy Comptroller), and Daniel Riley, Assistant director, of the Maryland Comptroller's Office.
- <sup>51</sup> Baltimore City Vice Sgt. Craig Gentile estimates the city has about 500 unlicensed machines.
- <sup>52</sup> Baltimore City and County records show totals vary slightly from month to month, depending on newly licensed machines.
- <sup>53</sup> Electronic Video Gaming Device Enforcement Fact Sheet, Baltimore County Police, 1993.
- <sup>54</sup> ibid
- <sup>55</sup> Interview with Wayne Lemons, Director of the Delaware Lottery, which operates Delaware's slots industry; interview with Ed Suter, COO Dover Downs.
- <sup>56</sup> Baltimore City Finance Department, Bureau of Treasury Management, Collection Division: amusement device registration records.
- <sup>57</sup> Data from Debbie Kendall and Karen Lewis, Baltimore County Permits and Licensing.
- <sup>58</sup> Report of the State Prosecutor, 1985 (Operation Quartermatch).
- <sup>59</sup> Interviews with Dunlap.
- <sup>60</sup> Report of the State Prosecutor, 1985 (Operation Quartermatch).

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- <sup>61</sup> Ibid.
- <sup>62</sup> Quartermatch report.
- <sup>63</sup> *Rossville Vending v. Comptroller*, 629 A.2d 1283 (MD.App. 1993).
- <sup>64</sup> Ibid. pg. 1284.
- <sup>65</sup> Ibid. pg. 1287.
- <sup>66</sup> Baltimore County's state tax lien records; lien #4977388, book 155, page 239.
- <sup>67</sup> Dunlap interview.
- <sup>68</sup> *State v. One Hundred and Fifty-Eight Gaming Devices*, 304 Md. 404 (Md.App. 1985).
- <sup>69</sup> Ibid.
- <sup>70</sup> *USA v. 294 Various Gambling Devices*, 1985 from Erie, Pennsylvania.
- <sup>71</sup> Interview with Linda Tanton, director, (now Deputy Comptroller) and Daniel Riley, assistant director, compliance division, the Maryland Comptroller's office.
- <sup>72</sup> Ibid.
- <sup>73</sup> *The Sun*, Nov. 15, 2005, Club co-owner owes taxes of \$1 million, state claims
- <sup>74</sup> Email from Constance Whitely to the governor's office, April 1, 2004.
- <sup>75</sup> Baltimore City Board of Liquor License Commissioners: records of bars charged with gambling violations.
- <sup>76</sup> Interview with George Abendschoen, administrator of the Baltimore County Board of Liquor License Commissioners.
- <sup>77</sup> *The Sun*, January 8, 1999; Inspector Got Money, Jurors Told; Witness Testified City Liquor Official Stuffed Cash in His Pockets by Walter F. Roche Jr.
- <sup>78</sup> Ibid.
- <sup>79</sup> Liquor Board records for 1100 Washington Boulevard.
- <sup>80</sup> City Police report #049L003872.
- <sup>81</sup> Interview with Baltimore City Vice Sgt. Craig Gentile.
- <sup>82</sup> City police report #049107955.
- <sup>83</sup> Interview with Gentile.
- <sup>84</sup> City liquor board file for 3603-05 Fairhaven Avenue.
- <sup>85</sup> City police report #044FO5173, City liquor board files for 4332 Erdman Avenue.
- <sup>86</sup> Interview with Gentile.
- <sup>87</sup> City liquor board files for 4332 Erdman Avenue.
- <sup>88</sup> City police report #044E16693.
- <sup>89</sup> City liquor board files and interview with Gentile.
- <sup>90</sup> Liquor board files for 4901 Frankford Avenue.
- <sup>91</sup> City police report #044F04458.
- <sup>92</sup> Interview with Gentile.
- <sup>93</sup> Liquor Board records for 5911 Belair Road.
- <sup>94</sup> *The Sun*, May 20, 2005, Boiler Company Owner Pleads Guilty to Fraud by Laura Loh; Baltimore City liquor board records for 413 S. Conkling Street.
- <sup>95</sup> Baltimore City liquor board agendas, 2004, 2005; *The Sun*, August 17, 2005 City Liquor Board is Not Enforcing State law by Lynn Anderson.
- <sup>96</sup> Interviews with city and county vice detectives.
- <sup>97</sup> Baltimore County vice detectives.
- <sup>98</sup> Interview with Gentile.
- <sup>99</sup> Baltimore City police report #053A6943.
- <sup>100</sup> Ibid.
- <sup>101</sup> Interview with Gentile.
- <sup>102</sup> City police report #053F5048.
- <sup>103</sup> City collection division's licensing records.
- <sup>104</sup> County vending license registration records.
- <sup>105</sup> United States District Court, District of Maryland- Northern Division, Affidavits in Support of Warrants #05-0438-BPG, #05-0441-BPG.
- <sup>106</sup> United States District Court, District of Maryland-Northern Division, Seizure Warrant #05-4490-BPG.

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- <sup>107</sup> Raids were conducted in February, 2005 at the Baltimore Travel Center, 5501 O'Donnell Street, the Elkton Travel Center at Airport Road and Rt. 279 in Elkton; and the Baltimore South Travel Center at I-95 and Rt. 175 in Jessup.
- <sup>108</sup> Federal Seizure Warrant #05-0441-BPG.
- <sup>109</sup> Title 18 U.S.C. Section 1955, Title 18 U.S.C. Section 1956; Maryland Criminal code Section 12-301, 302.
- <sup>110</sup> Baltimore City Zoning Code, section 13-610 Amusement Devices.
- <sup>111</sup> Interview with Donald Small, Baltimore zoning administrator.
- <sup>112</sup> The city zoning code allows 1 machine with up to 600 square feet and 2 machines for more than 600 square feet.
- <sup>113</sup> Interview with Mary Ann Uhl, Baltimore Department of Finance, customer service supervisor, bureau of treasury management, collection division.
- <sup>114</sup> City Council Bill 05-0294 introduced November 21, 2005 at the request of the Baltimore Licensed Beverage Association and sponsored by nine council members.
- <sup>115</sup> Interviews with Gentile, Uhl, violation notices given to vending companies, and spot checks by Abell researcher.
- <sup>116</sup> Interview with Marvin Gyr, supervisor of business and amusement inspections for Baltimore County and comparison of county amusement device licenses with county zoning code.
- <sup>117</sup> Interview with John Vontran.
- <sup>118</sup> Maryland Campaign Finance law, Chapter 7.2 Contribution Limits.
- <sup>119</sup> State of Maryland V. One Hundred and Fifty-Eight Gaming Devices, Court of Appeals, November 7, 1985
- <sup>120</sup> *Washington Post*, Reports of Illegal Slots Probed in Pr. George's; Lawmakers Told of Dozens of Sites, by Hamil R. Harris and Matthew Mosk.
- <sup>121</sup> Ibid.
- <sup>122</sup> *Pittsburg Post-Gazette*, November 7, 2004, Local Businesses Fear their Gaming Odds, Police Ambivalence Toward Illegal Gambling Expected to Change by Joe Smydo.
- <sup>123</sup> U.S. Attorney's Philadelphia office, Press Release, January 2, 2004.
- <sup>124</sup> Ibid.
- <sup>125</sup> Associated Press, 8/22/05 from [securitinfowatch.com](http://securitinfowatch.com).
- <sup>126</sup> Ibid.
- <sup>127</sup> Golden State Career Videos – slot machine repair: [64.57.102.78/CALGOLD2/calcareer/slot\\_rpr.html](http://64.57.102.78/CALGOLD2/calcareer/slot_rpr.html)
- <sup>128</sup> Technical Standards for Gaming Devices and On-Line Slot Systems from the Nevada Gaming Control Board; <http://gaming.nv.gov/> - Gaming Statutes and regulations.
- <sup>129</sup> Interview with Ed Suter, Chief Operating Officer for Dover Downs.
- <sup>130</sup> *Pittsburg Post-Gazette*, City Considers Applying for Slot Machine License, September 15, 2005 by Rich Lord.
- <sup>131</sup> Interviews with Ed Suter and Wayne Lemons, Director of the Delaware Lottery.
- <sup>132</sup> Lemons.
- <sup>133</sup> *North County Times*; Local Tribes Part of \$1 Billion Deal with State, June 21, 2004 by Edward Sifuentes
- <sup>134</sup> [Americangaming.org/diversity/vendors/licensing.cfm](http://Americangaming.org/diversity/vendors/licensing.cfm).