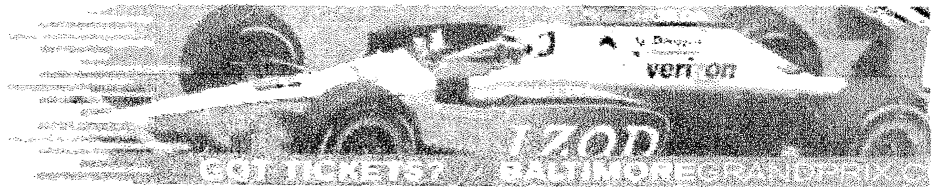


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2008 City Paper (Baltimore) by Jeffrey Anderson and Van Smith
With Mention of Gilbert Sapperstein's Activities

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MOBTOWN BEAT

And Then There Were Eight

Hollywood-Tied Drug Conspiracy Case Grows



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Lawrence "Lorenzo" Reeves (left), who helped LaVern Whitt (right) finance the Hollywood in a Bottle project, was indicted on drug-trafficking charges in September.

By Jeffrey Anderson and Van Smith | Posted 10/1/2008

THE BARE BONES OF A NATIONWIDE cocaine-trafficking organization, including the business partner of a Hollywood filmmaker with ties to City Hall ("The Company You Keep," *Mobtown Beat*, Sept. 10), have been described by federal prosecutors in a series of hearings and court filings over the past two weeks. The case, which started with three defendants and points to potential street violence, now has eight.

Named in the initial indictment is Lawrence "Lorenzo" Reeves, a prior drug convict in Maryland and Arizona, who earlier this year co-founded Hollywood in a Bottle, an educational initiative for youngsters interested in entertainment careers. His partner in the venture is Baltimore native LaVern Whitt,

a former Hollywood stunt woman living in Los Angeles. Whitt is co-producer, with Warner Music Group's Kevin Liles--also a Baltimore native--of a documentary-in-progress about Baltimore's four top elected officials, titled *Women in Power*.

Two of Reeves' alleged co-conspirators, Devon "Big D" Marshall and Otis "O" Rich (who was arrested Sept. 16), are well-known for their past criminal convictions and charges related to drug dealing and violence. Two others, Baltimore-based Juan Osmedy Nunez and Marcos Galindo, have ties to New York and Arizona, respectively, and have business experience in shipping and transportation. Nunez and Baltimore businessman and ex-con Gilbert Sapperstein, who in 2005 was convicted of bilking millions of dollars from city government ("Hot Contract," *Mobtown Beat*, Jan. 26, 2005), are co-debtors on the mortgage for an East Baltimore property that houses Nunez's trucking company and a tavern called El Rancho Blanco.

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The alleged organization, as its members are described during hearings and in public records, is shaping up to be a multifaceted, cross-country enterprise that operates in a variety of social settings. Reeves, with his for-the-kids Hollywood ties and air of respectability, presents a contrast to the fearsome Marshall and Rich, as does Nunez, who on paper comes across as a legitimate businessman with hardly a court matter in his background (though he appeared regularly before Baltimore City Board of Liquor License Commissioners to answer for problems at El Rancho Blanco, including assaults, gambling, and drugs).

At Devon Marshall's detention hearing on Sept. 3, prosecutors described him as a menacing street enforcer whom Lorenzo Reeves tasked with inflicting violence over drug-money disputes. A recent search of Marshall's Harford County home produced three loaded weapons and an assault rifle containing 20 armor-piercing bullets. A federal judge ordered Marshall, who has a conspiracy conviction and numerous violent drug charges dating to the early 1990s, detained as a flight risk and an ongoing danger to society.

Otis Rich, a career criminal, pleaded not guilty to coke trafficking on Sept. 22 and also has been detained. His criminal record dates to 1993, when he pleaded guilty to felony drug charges in a case that saw East Baltimore bail bondsman Milton Tillman ("Citizen of the Year," *Mobtown East*, Aug. 27) post his own property at 1506 N. Chapel St. as bond for Rich. Since then, Rich, who has several aliases, has been convicted twice on drugs and firearms charges. In three separate cases since the early 1990s, the state also has declined to prosecute him on murder and attempted-murder charges.

Reeves' other alleged co-conspirators include William Leonardo "Leo" Graham, of Baltimore, who was ordered detained on Sept. 18 based on multiple prior felony drug convictions, a prior handgun conviction, and the threat to "community safety." Nathaniel Lee "Big Nate" Jones, of Huntingtown in Calvert County, where he received a mostly suspended 10-year sentence in a 2006 felony drug case, pleaded not guilty to the recent federal charges on Sept. 22 and was released.

Still at large is 32-year-old Marcos Galindo, who has a prior drugs-and-weapons record in Arizona. In corporate records there, Galindo is listed as director of Precision Installation of Mesa, Ariz., a company that designs office space and ships furniture.

Juan Nunez first appeared in federal court on Sept. 17, and argued successfully for release on Sept. 23 before U.S. District Judge Susan Gauvey. However, U.S. District Judge William Quarles immediately overturned the decision. Quarles detained Nunez, after hearing allegations, based largely on wiretaps, that Nunez used aliases, purchased luxury cars from a Los Angeles-based car dealer with drug cash, sold vehicles with compartments installed for transporting drugs, and deposited large sums of money into bank accounts, despite having no reported income from various businesses he was affiliated with, including an internet trucking business and an interstate transportation company called J&R Transport. The company's office, according to state records, is at 100 S. Fagley St. in Highlandtown, which is also the address of El Rancho Blanco.

Nunez, according to city liquor board records, took over the liquor license for El Rancho Blanco in 2003 from his business partner, Juan Antonio Ortiz, a Highlandtown grocery-store owner who has since taken over the liquor license for another bar nearby, La Roca, on Pulaski Highway. At the time, Nunez wrote in his liquor-license application that he had worked since 1994 at L&M Produce in Jessup. In 2003 Nunez also purchased El Rancho Blanco's real estate. His mortgage for the property was co-signed by Gilbert Sapperstein, who for decades has been dealing in Baltimore-area bars, real estate, and amusement devices that are often used for illegal gambling. Nunez remains the property's owner of record, though the liquor license was transferred to Nunez business associate Eduardo Gonzalez Reyes in 2006. Since that time, according to liquor board records, the bar has been free of violations.

Ortiz and Reyes did not return messages by press time. Sapperstein's lawyer, David Cohen, says his client "was probably the guarantor" of Nunez's mortgage for purchasing 100 S. Fagley St.

The eighth member of the alleged cocaine conspiracy is Justin Santiago Gallardo, of Annapolis. He was released following his indictment on Sept. 3. His only prior criminal charges involve driving while impaired in

Maryland and Arizona.

According to the Maryland U.S. Attorney's Office, Lorenzo Reeves also has been released. He could not be reached for comment. His Hollywood in a Bottle business partner, LaVern Whitt, who has not been implicated in the conspiracy, has referred all inquiries about her relationship with Reeves to criminal-defense attorney Warren Brown. Brown confirms that Whitt met Reeves through an L.A.-based car dealer, and subsequently Reeves took out a bank loan to invest in Hollywood in a Bottle. Brown insists his client is in the clear.

"A lot of times these guys put A together with B to bring them into a conspiracy," Brown says. "If [Reeves] was secretive about whom he was dealing with, how can [they] put anything on my client?"

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The Abell Report

What we think about, and what we'd like you to think about

Published as a community service by The Abell Foundation

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.

By Joan Jacobson

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 their 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 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.”

Because the State does not acknowledge formally that it is in the gambling business, no legislation has been created 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. 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.¹ 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.²

This study presents an accounting of the number of the machines located in these jurisdictions and evidence that the devices bring in an estimated gross annual income ranging between \$91 million and \$181 million.³ The study also concludes that the industry is underreporting its income to tax collectors by \$63 million to \$153 million a year. 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 ILLEGAL SLOTS BUSINESS TODAY

Vending companies with large cash reserves shore up the tavern business with loans to bar owners.⁴ 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 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

continued on page 2

for two reasons: First, his income from the gambling profits – even after he pays his loan – is too profitable to give up as some bars don't sell enough beer to pay the bills; the lucrative video gambling trade is what really keeps them in the black.⁵ 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."

Interviews with Former Bar Owners

Former bar owners, who were interviewed for this study and operated their businesses in the 1990s, had similar stories: 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 started his career as a bartender 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. 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 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.⁶ In addition, several smaller companies each own a handful of machines, and there are hundreds of video gambling machines registered by bars and other businesses independently from the vending companies. Some companies also operate under the radar of the City and County licensing agencies

by not licensing their machines: For example, according to newspaper reports, the owner of Statewide Amusements Inc., a Pasadena business, was caught with 12 unlicensed amusement devices during a November 2005 raid at the Owl's Nest in South Baltimore.⁷

Links to Local Organized Crime

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. This is illustrated in *Wised Up*, the 2004 memoir of an FBI informant, Charlie Wilhelm, who tells 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 that the tavern he operated in Dundalk, Joe's Tavern, 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.⁸ Joe's employees also sold drugs, made illegal loans, ran a bookmaking operation and occasionally supported prostitution out of the bar. Joe's Tavern was recently shut down by the Liquor Board in response to several violations. Another example of a popular bar

continued on page 3

with video gambling machines was Letts Tavern on Belair Road which was owned by Vernon Letts, a convicted bookmarker.⁹ Letts is also no longer in business.

NUMBERS THAT COUNT

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.¹⁰ In addition, spot checks of several locations, as well as interviews with the City police detectives, reveal numerous unlicensed gambling devices in Baltimore City.¹¹ Since the City's unregistered machines are impossible to count, figures are limited to licensed gambling devices.

LOSS OF REVENUE

To demonstrate the loss of tax revenue, the study focuses on 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 FY 2005, the state collected \$1.3 million for the city and \$1.5 million for Baltimore County.¹² 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.

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***From all appearances,
Maryland's enforcement
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agencies find themselves
working at odds, the
right hand not knowing
what the left is doing.***

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This study reveals a much different picture. Based on interviews with law enforcement representatives and former bar owners, it is estimated that each machine in these jurisdictions bring in between \$500 to \$1,000 a week, or \$26,000 to \$52,000 a year.¹³ 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.¹⁴

In addition to the Admissions and Amusement tax, the state and federal governments are undoubtedly

ly losing millions more in income taxes due to underreporting of the business income accrued through this illegal activity; 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.

OPERATION QUARTER-MATCH

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, focused on vending company owners committing tax fraud rather than filing gambling charges against individual tavern owners, a practice that had proved an "ineffective deterrent" in the past. As part of this investigation, the State 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. Illegal gambling charges were also filed.

Auditors from the Maryland Comptroller's office and the State Prosecutor's office analyzed records and in some cases, auditors found two sets of accounting books – one falsified, showing income reported to tax collectors and a second, true accounting.¹⁵ 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 \$13,242,655.¹⁶ Income of

continued on page 4

\$21,005,565 over a little more than three-years was unreported.

COURT RULINGS

Court rulings in Maryland have long determined that video gambling machines are designed and used for illegal gambling. In 1985, the Maryland Court of Appeals ruled that even without evidence of pay-offs these machines are “contraband,” illegal by their design as slot machines without slots.¹⁷ 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.) In 1993, the Court of Appeals ruled that the illegal cash payments made to players of video gambling machines were includable as “gross receipts” subject to the Admissions and Amusement tax.¹⁸

GOVERNMENTAL RESPONSES

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

Maryland Comptroller’s Office

The Maryland Comptroller’s office has known for 20 years that the industry’s income is underreported.¹⁹ In 2005, interviews were conducted with the Director and Assistant Director of the Compliance Division of the Comptroller’s Office to learn what the agency has done since Quartermatch. They responded that without a govern-

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Law enforcement efforts are often cancelled out when the City and County registration offices approve licenses for new machines to replace those confiscated or damaged by police.

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ment-controlled tracking system in the machines, the Comptroller’s office cannot collect full taxes because it has no way to prove how much money comes into the machines.²⁰ 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.

The compliance division chiefs noted that their auditors are limited by the accounting books available at vending companies. They have few ways to detect if the records are altered or inaccurate. 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 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 Appeals ruling requiring that Admission and

Amusement taxes be paid on the illegal payouts to gamblers, the chiefs said they cannot enforce the Court’s order without proof of revenue. Citing state confidentiality laws, the chiefs declined to say whether any vending companies have been fined or otherwise punished for failing to pay taxes on amusement devices.

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.²¹ In November 2005 the comptroller’s office filed a lien against Statewide Amusements Inc. for \$953,515 in unpaid taxes from unreported income.²²

Law Enforcement

Law enforcement efforts are often cancelled out when the City and County registration offices 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. 25th 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.²³ Likewise in Baltimore County the operator of Milano’s Restaurant and Carryout, 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

continued on page 5

days after county police confiscated three video gambling machines.²⁴

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. City police, for example, seized \$400,000 through 37 search and seizure warrants in the first 11 months of 2005, most of which the city was allowed to keep.²⁵ 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.

This year, the Baltimore City's vice squad, under the direction of Sgt. Craig Gentile tried a new tactic of targeting the vending companies instead of conducting raids on individual bars and stores. One such case targeted Carbond Inc. which is owned by Carroll Bond III. Carbond is the largest owner of gambling machines, with 192 gambling machines licensed in the city and 131 in Baltimore County.²⁶ The investigation resulted in a raid on Carbond's headquarters pursuant to a search and seizure warrant and confiscation of about \$8,000, envelopes with weekly collection sheets, bank statements, and other documents. Gambling charges were filed against Carbond Inc. and a store which carried Carbond's video gambling machines, J&P Carryout.

The charges against Carbond were dismissed at trial because a

prosecutor failed to answer a routine motion.²⁷ The city returned the money and other evidence it seized in the raid though they got to keep the money seized from the J & P Carryout. 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. The city kept the \$13,000 it seized from Carbond in this case and \$18,000 from two businesses that carried Carbond's machines.²⁸

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.²⁹ 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.³⁰

Liquor Boards

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,³¹ and Baltimore County's liquor board hears no cases involving illegal gambling machines, despite the 1985 Quartermatch report showing a booming slots industry in the jurisdiction.³² The Baltimore City liquor board continues a long-standing practice of treating gambling violations as minor infractions as highlighted by the cases below:

- Sid's Tavern, 1100 Washington Boulevard, was charged at a liquor board 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."³³ Evidence showed a City police detective who played a gambling machine was paid off. Police confiscated \$8,107 in cash from the machines, a safe, a drawer and other locations in the bar. They took 40 folders with records of gambling payouts, plus a payout tally sheet.³⁴ In district court the business operator was given probation before judgment.³⁵ 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, 3603-05 Fairhaven Avenue, was tried at a March 2005 hearing for illegal gambling after a sting operation. Police seized \$37,120 from the machines and elsewhere in the bar and found \$23,955 in an upstairs kitchen cabinet.³⁶ In district court, one owner received

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probation before judgment and the other had her case put on an inactive docket. The owners forfeited 75 percent of the money seized.³⁷ The liquor board found the bar owners guilty and fined them \$100, plus \$125 administrative fee.³⁸

- Bay City Liquors, 4901 Frankford Avenue, was tried in September 2004 after a police detective received a payout. Police seized \$8,046 from the store.³⁹ In court, the case was put on an inactive docket and the business received about half the money back.⁴⁰ 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.”⁴¹

The City’s Board of Liquor License Commissioners also 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 Sapper-

stein, 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.⁴²

Departments of Zoning and Finance

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.⁴³ Donald Small, the City’s Zoning Administrator at the Department of Housing and Community Development, was unaware, until presented with research that as of September 2005, hundreds of City businesses are violating the zoning code by keeping more amusement devices than the law allows.⁴⁴ 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.⁴⁵

Zoning violations were also brought to the attention of officials in the Bureau of Treasury Management’s Collection Division which operates under the City Finance Department, the agency which grants the amusement device licenses. The officials said they independently discovered businesses with too many machines and began consulting the zoning code around the same

time as this study.⁴⁶ 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 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.⁴⁷ 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. Many of the City’s amusement devices – especially video gambling machines – are not licensed by the City, as required by law.⁴⁸

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. Unlike the City, Baltimore County does not appear to have many violations of its zoning regulations. The

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County has 13 inspectors (some with more than ten years' experience) to visit businesses with the machines and check for licenses and zoning violations.⁴⁹

LESSONS FROM OTHER JURISDICTIONS

Zero Tolerance

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.

Legalized Slots

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. State governments are

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***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
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gamblers.***

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receiving 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 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. If the City became a casino owner, the City Council President reasoned it could reap \$250 million.⁵⁰ In FY 2005, Dover Downs earned a net of \$193 million.

Of that income, Delaware's general fund received \$69 million⁵¹ out of a total \$204 million in revenue.⁵²

RECOMMENDATIONS

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.

Two courses of action are offered in response to the current situation: 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 gambling industry to ensure a corrupt-free business and an honest accounting of revenue with the state receiving its proper share.

The challenge is there for citizens and lawmakers.

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.

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*The full report of "Underground video gambling industry costing Maryland More than \$15 million annually in uncollected taxes" is available on The Abell Foundation's website at www.abell.org
or: write to The Abell Foundation 111 S. Calvert Street, Baltimore, MD 21202*

Endnotes

- ¹ Baltimore County's state tax lien records; lien #4977388, book 155, page 239.
- ² *The Baltimore Sun*, May 20, 2005, Boiler Company Owner Pleads Guilty to Fraud by Laura Loh.
- ³ 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.
- ⁴ *The Sun*, March 30, 1980, Illicit Gambling Rife in Taverns in Baltimore County by Katherine White.
- ⁵ Interviews with several former bar owners, including *Wised Up* author Charlie Wilhelm.
- ⁶ Baltimore City and County amusement device registration records.
- ⁷ Baltimore City registration records, *The Sun* Nov. 5 2005, Raid Riles Poker Players by Lynn Anderson.
- ⁸ 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.
- ⁹ Baltimore City amusement device registration records.
- ¹⁰ Baltimore City and County records show totals vary slightly from month to month, depending on newly licensed machines.
- ¹¹ Baltimore City Vice Sgt. Craig Gentile estimates the city has about 500 unlicensed machines.
- ¹² Maryland Comptroller's office, Compliance Division.
- ¹³ Dunlap, Baltimore City and County vice, police reports, bar owners.
- ¹⁴ The number was reached by subtracting the amount of income reported (based on the 10 percent amusement tax) from the actual income estimate.
- ¹⁵ Interviews with Dunlap.
- ¹⁶ *Report of the State Prosecutor*, 1985 (Operation Quartermatch).
- ¹⁷ Maryland Court of Appeals; *State of Maryland v. One Hundred and Fifty-Eight Gaming Devices*, 304 Md. 404 (MD. App. 1985)
- ¹⁸ *Rossville Vending v. Comptroller*, 629 A.2d 1283 (MD.App. 1993).
- ¹⁹ *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.
- ²⁰ Interview with Linda Tanton, Deputy Comptroller, and Daniel Riley, assistant director, compliance division, the Maryland Comptroller's office.
- ²¹ *Ibid.*
- ²² *The Sun*, Nov. 15, 2005, Club co-owner owes taxes of \$1 million, state claims.
- ²³ City collection division's licensing office.
- ²⁴ Baltimore County vending machine license office.
- ²⁵ Interview with Vice Sgt. Gentile.
- ²⁶ City and county registration records for amusement devices.
- ²⁷ Interview with Gentile.
- ²⁸ City police report #053F5048.
- ²⁹ United States District Court, District of Maryland- Northern Division, Affidavits in Support of Warrants #05-0438-BPG, #05-0441-BPG.
- ³⁰ United States District Court, District of Maryland-Northern Division, Seizure Warrant #05-4490-BPG.
- ³¹ Baltimore City Board of Liquor License Commissioners: records of bars charged with gambling violations.
- ³² Interview with George Abendschoen, administrator of the Baltimore County Board of Liquor License Commissioners.
- ³³ Liquor Board records for 1100 Washington Boulevard.
- ³⁴ City Police report #049L003872.
- ³⁵ Interview with Baltimore City Vice Sgt. Craig Gentile.
- ³⁶ City police report #049107955.
- ³⁷ Interview with Gentile.
- ³⁸ City liquor board file for 3603-05 Fairhaven Avenue.
- ³⁹ City police report #044E16693.
- ⁴⁰ City liquor board files and interview with Gentile.
- ⁴¹ Liquor board files for 4901 Frankford Avenue.
- ⁴² *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.
- ⁴³ Baltimore City Zoning Code, section 13-610 Amusement Devices.
- ⁴⁴ Interview with Donald Small, Baltimore zoning administrator.
- ⁴⁵ The city zoning code allows 1 machine with up to 600 square feet and 2 machines for more than 600 square feet.
- ⁴⁶ Interview with Mary Ann Uhl, Baltimore Department of Finance, customer service supervisor, bureau of treasury management, collection division.
- ⁴⁷ City Council Bill 05-0294 introduced November 21, 2005 at the request of the Baltimore Licensed Beverage Association and sponsored by nine council members.
- ⁴⁸ Interviews with Gentile, Uhl, violation notices given to vending companies, and spot checks by Abell researcher.
- ⁴⁹ Interview with Marvin Gyr, supervisor of business and amusement inspections for Baltimore County and comparison of county amusement device licenses with county zoning code.
- ⁵⁰ *Pittsburg Post-Gazette, City Considers Applying for Slot Machine License*, September 15, 2005 by Rich Lord.
- ⁵¹ Ed Suter, Chief Operator Officer for Dover Downs and Wayne Lemons, Director of the Delaware Lottery.
- ⁵² Lemons.



Jail term halved

state asks why
Man stole millions from city schools, does time at home

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October 15, 2005 | By LYNN ANDERSON | LYNN ANDERSON,SUN REPORTER

The state prosecutor is investigating how Gilbert Sapperstein, who was sentenced to 18 months in prison for his role in a scheme to steal \$3.3 million from the city schools, managed to have nine months shaved off his sentence while serving the remainder on home detention in the suburban comforts of his Green Spring Valley home.

"We're concerned about this," said State Prosecutor Robert A. Rohrbaugh, "but until we have all of the facts we don't have any further comment." Rohrbaugh's staff spent months building a case against Sapperstein and those who helped him.

Officials with the Department of Public Safety and Correctional Services said Sapperstein qualified for home detention because of his low risk for flight and relatively short sentence. Although the agency approved the reduction in his sentence, officials could not say exactly why it was cut in half.



Department spokesman George Gregory said that in general inmates lose 10 days for every month of their sentence due to a policy that rewards them for good behavior at the start of their prison stay. If they misbehave later, time is tacked on, he said. Using that formula, Sapperstein's sentence should have been reduced 180 days or 6 months - not 9 months.

Sapperstein's attorney, Gregg Bernstein, said that his client did not receive preferential treatment. He said that during the month Sapperstein spent in prison, he sought home detention three times before it was approved. Each time, Sapperstein was transferred to a new prison facility before his case could be fully reviewed, Bernstein said.

"Everything was done by the book," the attorney said. "It would be irresponsible to suggest otherwise."

Reached by telephone at his ranch-style home not far from the Jones Falls, Sapperstein confirmed that he was on home detention. Asked how it was, he said, "Not bad."

Sapperstein, who owns All-State Boiler Service Inc., pleaded guilty in May to conspiracy, bribery and theft in connection with a scheme to defraud the city school system. He admitted to paying bribes to a city schools employee in exchange for fraudulent work orders that netted his boiler business millions of dollars in extra revenue.

At his sentencing in city circuit court in August, he repaid the \$3.3 million he stole from the school system plus \$200,000 in interest, and paid \$508,084 in other fees and fines, including \$138,084 he stole from the city Department of Public Works under a similar scheme.

According to the terms of his home detention, Sapperstein cannot engage in business and cannot leave his house for any purpose other than to visit his caseworker. He is monitored 24 hours a day, 7 days a week by an electronic device and visited by law enforcement officers at least twice a month. He is not allowed to drink alcohol and must submit regular urine samples to test for drug use.

He can, however, entertain any number of guests at his home, including business associates, said Diane Scurry, acting executive director of the Central Home Detention Unit. Asked whether it was possible for Sapperstein to discuss business with his associates, Scurry said, "We have no way of knowing what his visitors say to him."

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In addition to his boiler business, Sapperstein is also entrenched in the city bar scene as the owner of Star Coin Machine Co. He leases video poker games to dozens of bars and is a well-known liquor license broker. When people buy liquor licenses from him, he often requires that they also lease his video poker games. Bar owners sometimes use money they earn from the poker games to help cover expenses, including money owed to brokers.

The Baltimore City Board of Liquor License Commissioners, which oversees roughly 1,400 liquor licenses in the city, has cracked down on brokers recently. Some brokers sit on licenses for months at a time to get the best price possible. State law mandates that dormant licenses expire after 180 days or 360 with an extension, but past liquor boards allowed some brokers, including Sapperstein, to hold on to licenses as long as they paid annual renewal fees or initiated the transfer process.

Rohrbaugh's office has subpoenaed thousands of documents from the liquor board as part of an investigation into the state agency's policies and procedures. Last week, the office sent out hundreds of letters to liquor licensees soliciting information about liquor inspectors and inspections.

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