



## The Losing Game

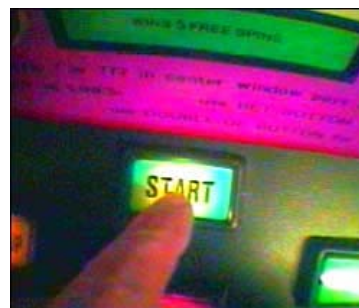
### About the Story

Gambling brings the state hundreds of millions in taxes every year - from riverboat casinos to horse tracks to the lottery. But what if we told you there were hundreds of millions more just waiting for the state to collect? That's what our 13 Investigates team found in an exclusive undercover look into Indiana's thriving illegal gambling industry – millions and millions of untaxed dollars at virtual mini-casinos all over the state.



### Part One

At a neighborhood bar in Muncie, we watch the cash changing hands - players collecting the prize for racking up 500 credits on a video gambling machine.



That's a crime under state law - a misdemeanor to collect and a felony to own and operate the machine. But the law isn't stopping the payouts. At business after business all over Indiana, we found slot-machine style Cherry Master machines lined up and ready to play. The machines aren't taxed, and as a result, officials say, the state is losing out on hundreds of millions of dollars.

"Right now there are a number of people that are practically thieves that are operating these machines," said Rep. Win Moses, R-Fort Wayne.

For our 13 Investigates report, we set out with undercover cameras to find the Cherry Masters that are the bread and butter of this highly profitable underground gambling industry.

It didn't take long to find the machines and evidence of illegal payouts, from a busy truck stop near Huntington that offers free soft drinks to players, to a bar in Muncie, to a Richmond truck stop with six machines.

A convenience store in Fort Wayne doesn't have the glamour of a Las Vegas casino, but the gambling, complete with spinning wheels and jingling bells, is easy to find. In a side-room we found 10 machines waiting to play - and pay.

Our undercover camera captured a clerk's explanation of how they work:

**WTHR:** How do you get your credits out of there?

**Clerk:** When you're ready to cash out?

**WTHR:** Yeah.

**Clerk:** Yeah, just tell me and I'll add them up for you.

**WTHR:** Can you just get cash for them?

**Clerk:** Yeah.

She told us it's a nickel for every point you accumulate, or \$50 for a thousand credits.

That's also the going rate at truck stop off I-69 near Muncie. The gambling's right up the steps – 10 Cherry Masters just outside the general manager's office, where you knock to claim your winnings.

**Manager:** A hundred credits would be, what would that be, five dollars.

**WTHR:** Okay, so you get cash?

**Manager:** A nickel a point.

And over in Clinton County, just down the street from the courthouse where laws are enforced we found another place where the law is broken: a smoke shop with 13 machines out in the open. When we asked about payouts, co-owner Tom Click was cautious first to make sure we weren't law enforcement.

**Click:** You're not excise are you?

**WTHR:** No.

**Click:** That right there's a dollar if you want to cash that out. Every hundred is \$5.

**WTHR:** So I could just get a dollar cash?

**Click:** If that's what you want.

So what's the big deal? A nickel a credit isn't much, but keep in mind there are as many as 22,000 - maybe more - of these machines statewide. By conservative estimates the state's losing hundreds of millions of dollars in potential income and gaming tax revenues. That jackpot could be used for schools, roads, or lowering your property taxes.

"The revenue that's been projected based on a moderate amount of play on each machine is in excess of \$200 million a year," said Hoosier Lottery Executive Director Esther Schneider. The Lottery is among the agencies that have studied the proliferation of illegal gaming machines around the state.

Where is all the money going now?

"It's going into a private person's pockets and they're not paying taxes, state or federal," she said.

A push to legalize and tax video gambling machines was expected in this year's legislative session but has not materialized. The lottery is one agency that could be charged with regulating legalized machines, but Schneider said that decision is up to lawmakers.

## Part Two

The words on the stickers say "For Amusement Only." But there's more than fun at stake here.

**Truck stop manager:** You got to get an even number, then I would cash that out.

**WTHR:** Can you just get cash for them?

**Convenience store clerk:** Yeah.

**WTHR:** What can you get?

**Truck stop clerk:** Cash.

These employees are talking cash - in fact, illegal cash payouts on gambling machines called Cherry Masters. Our undercover video shows the machines all over the state, in bars, truck stops, convenience stores. And in business after business, owners, managers and employees told us we could win cash - a blatant violation of state law.

Not only is it illegal, it's costing you, the taxpayer. That's because these machines are part of a lucrative underground industry that generates hundreds of millions of dollars in revenues. But little, if any, of that money gets taxed.

Our undercover camera captured exchanges like this one with the general manager of a busy truck stop off I-69 near Muncie. Our photographer asked about cash payouts on the store's 10 Cherry Masters.

**WTHR:** So you get cash?

**General manager:** A nickel a point.

But all bets are off when the manager later sees our cameras rolling.

**WTHR:** Do you have a cash payout for those machines?

**General manager:** Don't hold the door, sir.

**WTHR:** It's a very simple question.

**General manager:** I'm sorry.

Across the state in Frankfort, we found 13 machines in Downtown smoke shop. Again on undercover camera, co-owner Tom Click asked whether we were with the state excise police before explaining the payout.

**Click:** That right there's a dollar, if you want to cash that out. Every hundred is five dollars.

**WTHR:** So I could just get a dollar cash?

**Click:** If that's what you want.

But the game changed a few days later when we asked for an interview. Click said his machines are just video games and the only things at stake are prizes, not cash.

**WTHR:** Why does it matter whether this person that came in is with the excise or not?

**Click:** Well, it probably doesn't matter.

**WTHR:** Especially if they're just getting prizes, right? You're not paying cash.

**Click:** Exactly.

**WTHR:** You're sure about that?

**Click:** I'm pretty sure.

Click claims he and his partner report all the machine revenue on their taxes. If so, it's a rarity, according to state officials.

"Right now, people are making money and pocketing it without paying any tax," said Sen. Bob Meeks, R-Lagrange.

Lawmakers like Meeks and House Democrat Win Moses, D-Fort Wayne, want to legalize and tax video gambling in bars and fraternal organizations. They say the state could take in a minimum of \$200 million every year.

Two hundred million could be used for our schools, for our roads, for our police - it could be used for any number of good things," Moses said.

But any effort to legalize Cherry Masters is likely to face strong opposition.

"Everybody looks at revenue, of course, and frankly I would rather just grow our economy and our staple businesses, and continue growing that economy and be less dependent on gaming," said House Speaker Pro Tem Eric Turner.

Turner isn't swayed by the promise of big money from legal video gambling. He said legalizing Cherry Masters would be the biggest expansion of gambling ever in Indiana.

"I don't think it appeals to a family situation to walk into an O'Charleys or Applebees or Chilis or a restaurant like that and over in a corner they've got lights flashing, encouraging you to come over and play the video lottery," he said. "That's not what I'd like to see in our state."

State excise police have begun stepping up enforcement against illegal gambling machines, seizing money and disabling machines in 386 cases against bars and restaurants in 2005.

But the business continues to flourish in places like truck stops and convenience stores, while the excise police generally restrict their enforcement to holders of alcoholic beverage licenses. Advocates of legalization also note that many county prosecutors view illegal gambling violations as a low priority, further allowing the law to be ignored.

Among those advocates is the Indiana Licensed Beverage Association, a trade group that represents holders of permits to sell alcoholic beverages. The group refutes the notion that they support expanded gambling.

"A lot of these machines are already out there," said ILBA President Don Marquardt. "Twenty-

plus years these machines have been out there."

Marquardt and ILBA executive director Brad Klopfenstein argue that legalizing video gaming and limiting it to licensed bars and restaurants would actually decrease the numbers of machines.

"All the stepped-up enforcement has done is really driven them underground," said Brad Klopfenstein, executive director of the ILBA. "We're actually looking to regulate these things, legitimize them, so the state actually does have an idea where they are (and) who's playing them."

Meeks said it's unlikely the legislature will take up the legalization debate this year, though there's a slim chance of it surfacing in an amendment should an existing gambling bill advance. Either way, he said, it's clear the issue must be faced at some point. In addition to the revenue issues involved, he said the state needs to be concerned about the accessibility of gambling machines to children and the fairness of payouts to players.

Meeks, a former state police trooper, said he's seen dozens of Cherry Masters at a single truck stop and even spotted them at a bar near Downtown Indianapolis.

"There's two types of crime - light crime and dark crime," Meeks said. "And this is currently dark crime that ought to be brought out into the light and controlled and taxed."



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